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No. 445

The Fundamentals of Accountancy.

By Lawrence R. Dicksee, M.Com., F.C.A.

(Professor of Accounting and Business Organisation in the University of London.)

Addressing himself to the Student who is starting his career as an Accountant, Professor Dicksee, the eminent Author of this series of Educational Articles, explains the true nature of accounts and the transactions recorded by them in an explicit manner that cannot fail to be grasped by the beginner.

Introduction.

The Editor of the *Accountant's Journal* has been good enough to ask me to write a series of twelve educational articles for articled clerks upon Bookkeeping and Auditing, suggesting that they might afterwards be reproduced in book form and would form "a first text-book upon these subjects."

There can, I think, be very little doubt that there is still room for something of this kind. Conditions generally are very different from what they were in 1881, when I was articled, in that there is now almost a super-abundance of text-books available to the accountant student; but I think the book has still to be written that is really suitable for the student who has just signed his articles, to whom as yet the whole atmosphere of the accountant's office is entirely new. In the nature of things, some are more favourably situated than others, in that some will always be able to get help if they will only take the trouble to ask questions; but few are so favourably situated that they are in a position to know precisely what they would like to ask, or to find at hand someone really capable of answering their enquiries in

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a manner that will be altogether intelligible to the complete novice, and at the same time serve to inspire in him a lively interest in his new profession.

I am undertaking the present work in the hope that I may be in a position to anticipate, by personal experience, at least the majority of the difficulties of the average young articled clerk, and to smooth out those difficulties in a way that will serve to build up an enduring foundation on which to erect a subsequent structure of useful knowledge and experience, while at the same time keeping alive in the beginner that fire of enthusiasm with which it is not altogether unreasonable to assume that he started his profession—a fire which is but too often allowed to burn out for want of a little kindly attention.

I.—What Accounts Are.

It is a mistake to start with the assumption that Accounting is essentially a question of figures. Accounting is essentially a narration of things that have happened. The sort of things that have to be recorded in connection with actual business are ideas that, in general, can be recorded more concisely by employing figures than by leaving them out; but it is very essential that the Student should realise from the outset that the figures are part of the method, rather than part of the principle of accounting, and that from time to time it may be very necessary to revise the figures in order that they may indicate with reasonable fairness the ideas that they are intended to convey.

In general terms, an account is nothing more than a narrative, or record, of something that has happened. Formerly, the records of what had happened in connection with a business were invariably recorded in bound books, and the law in some countries still requires them so to be recorded: hence the term "Bookkeeping." For a quarter of a century or more, however, it has been recognised in this country that, for many purposes, bound books represent a most inconvenient method of recording; hence the more general term "Accounting" is to be preferred, as more accurately describing the process of recording things that have happened in the life of a business.

II.—Transactions, and the Parties to Them.

These things (the subject of the record) are commonly spoken of as "transactions." The word well describes their nature so long as we pause to consider what the word really means. An alternative word, conveying precisely the same idea, is **CROSS-DEALINGS**, which has the advantage of indicating at once a fact that must never be forgotten; that it takes two parties to make a transaction, and that the transaction consists of a transfer, or carrying across, of some form of wealth—whether money, goods, or services—from one party to another party; a transaction which inevitably involves upon the recipient the

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liability to make a corresponding return hereafter before matters (or accounts) are settled as between the two.

In the nature of things, a business house has transactions with all sorts of different parties. It is, however, important to bear in mind that "the business house," as such, is but an abstraction; that in the nature of things it can only enter into practical affairs through the intervention of human beings acting as its agents. Students rarely find any difficulty in grasping this idea as regards a company, even although they may have somewhat inaccurate ideas as to the legal constitution of a company. It is of great importance that they should realise that the principle holds good equally with regard to a business house owned by two or more persons in partnership, or even by a single individual. We must endeavour to realise that the accounts of "the business house," however constituted, are the accounts of what has happened to this abstraction, and not of what has happened to one or more (or all) of the individuals who may for the time being happen to be proprietors of the business house. That is to say, the student must recognise that whatever may be done by proprietors or partners or directors, just as much as that which is done by employees or agents, is something done by an individual on behalf of the business house, *by an agent acting on behalf of his principal*, and that a proper system of accounting for the business house requires a record to be kept of what these agents have done on its behalf, and therefore of how they stand with regard to it, just as much as it requires a record to be kept of what mere strangers or outsiders may have done in relation to the business house in question.

The young student is often encouraged by text-books to approach the subject of accounting from the point of view of what it would be reasonable for a man to record, if he were in the position of being the proprietor of the business in question. It cannot be too clearly pointed out that the accounts of a business house are something entirely different from the accounts of the proprietor or proprietors of that house, and that accordingly nothing but confusion can result from approaching the matter from this mistaken point of view. The proper view-point is to regard the person responsible for the keeping of the accounts as an entirely detached, and therefore impartial, Registrar of events; as somebody whose whole duty it is to be strictly fair as between contending parties, as someone occupying a quasi-judicial position, who in the nature of things can neither gain nor suffer personally by anything that has happened, or may happen, to the business house. This may seem to be a somewhat glorified view of the position, and perhaps it but ill-accords with the rates of remuneration ordinarily paid to bookkeepers; but it is, nevertheless, the only possible view-point for the student who really wishes to understand the principles of accounting, to reduce accounting methods to real principles, *i.e.* to inflexible rules that will serve their purpose under all conceivable kinds of conditions.

Audit Programmes and Procedure—I.

By Andrew Binnie, F.C.A., C.A.

The following contribution is the first of a series of articles specially written for the "Journal" by Mr. Andrew Binnie, the well-known writer on accountancy subjects. After describing the routine procedure common to all audits the programmes will deal with the special features to which particular attention must be paid in conducting the audits of various classes of business, and will set out concisely the salient points to be noted in the audit of different undertakings.

Preface.

The study of history, it has been said, takes the place, to some extent, of experience. The same may be said of Audit Programmes, which embody in an organised form the fruits of accumulated experience. Programmes are also useful as a remembrancer, or, in the more vivid language of America, as a "tickler," so that nothing material be overlooked, and they enable audits to be carried out "according to plan" in a systematic manner, with a consequent saving in time. Moreover, the practitioner can add to the programmes from time to time as fresh points arise, and so add to the common stock.

There is much that is common to every type of audit, and we will endeavour in this series of programmes to group together what is common ground (thus avoiding needless repetition), and to set out under distinctive headings points which arise in special matters.

Apart from variety in type, one may divide audits broadly into two classes—

(1) Audits in which the direction and management are such that the bookkeeping and other records are kept in an organised form and efficiently controlled, so that the facts may be readily ascertained and tested, leaving the Auditor to his proper function, which is to see that the facts are properly put together on sound principles—in other words, that the Balance Sheet is, in his opinion, true and correct.

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(2) Audits—still too numerous—in which the bookkeeping is inefficient, and the records in confusion, so that the Auditor himself has to seek out the necessary “ information and explanations ” and to rectify or even write up the books and raise the accounts.

It is obvious that as regards the former class the Auditor may, by exercising discretion and judgment, be able very much to curtail the detail work prescribed in programmes.

In principle the intention in company matters is that the Auditor should stand, as it were, between the Directors and the Shareholders, and not between the Directors and their employees, whose work should be controlled by an internal system of check. The Auditor should therefore lose no suitable opportunity of making suggestions as to expert bookkeeping, organisation, and control, which will enable him to restrict his work as far as possible to his true function, which is to audit accounts raised by others.

Common to all Audits.

Ticking Postings and Checking Casts.

It is usual for the Auditor to test the accuracy of the books by ticking at least part of the postings from the Day Books, Journals, and Cash Books to the Ledgers, and by checking part or the whole of the casts of the books. Distinctive ticks, the form of which is common knowledge, should be used for postings, castings and Ledger transfers. The checking should be done in ink. The same colour of ink should not be used two years in succession. A change of colour is of the greatest assistance in agreeing books. It enables balances to be extracted more rapidly and correctly, and, as experience shows, errors are detected which might otherwise be passed over again and again.

How far these operations need be carried out is clearly a question of circumstances. It is only where the books have not been well kept and not agreed, and efficient control is lacking, that the Auditor need call over the whole of the postings, check all the casts, and agree the books himself. Where, however, the organisation is sound, and the bookkeeping on expert lines, ticking and casting may be curtailed.

Notes.

(1) If effectively and completely carried out, the processes of ticking postings and checking casts prove that the postings and castings are correct, that the postings have, in fact, been made to the accounts to

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which they purport to have been posted, and they ensure the arithmetical accuracy of the Trial Balance as a preliminary to the searching scrutiny of the Personal and Impersonal Accounts which is an essential part of the audit. Ticking does not prove that all sales have been entered in the Day Book, or all purchases entered in the Bought Day Book, or that all the cash received and paid has been entered up. It does, however, ensure that all the entries which do appear in the Day Books, Journals, and Cash Books have been posted. After the ticking to the Ledgers has been completed, the Ledgers should be examined in order to see whether there are any unticked items, and such items, if any, should be scrutinised closely. An item of cash received not ticked in the Ledger suggests that moneys have been collected and not entered in the Cash Book, the Ledger Account being closed off by a single entry in order to cover the omission. An unticked cash paid item is unlikely to be found. An unticked credit item in the Ledger suggests that a fictitious entry has been made to cover up an irregular cash payment. The entry may take the form of a purchase which has never been made, or returns which have never been returned, The writing-off as bad of a debt which has been collected and not entered in the Cash Book is another form of fictitious entry. The auditor should, therefore, satisfy himself that the unticked items do represent *bona fide* transactions which have taken place, doing so by reference, as regards sales, to delivery notes, as regards purchases, to invoices, as regards cash received, to counterfoil receipts, and, as regards cash paid, to vouchers, or, failing production of these documents, by direct inquiries addressed to independent sources of information. Cases of this kind are very much the exception and can only arise where there is a lack of proper organisation and supervision.

(2) As regards the Impersonal Accounts, the modern system of columnar bookkeeping (now adopted by all experts) obviates a great deal of ticking, since only totals are posted. The columnar system enables the auditor to see at a glance to what Impersonal Account each item has been relegated, and errors can be readily detected, so that there is a considerable saving of time, not only to the bookkeeper but to the auditor, where columnar methods are in use.

(3) The tedium of ticking postings and checking casts may sometimes be avoided by applying other tests of a more conclusive nature. For instance, in the case of rents receivable a duly authenticated rent-roll will show the total which ought to be received. Where the columnar system of bookkeeping is in use the total rents received can

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be readily arrived at from the Cash Book. By adding the receipts to the arrears, at the end of the year, less the arrears at the beginning of the year, a complete agreement should be reached. To arrive at this agreement will usually take less time than ticking and casting the Rent Ledgers, and is a conclusive test, provided the amounts in arrear are proved to be in order and that the rents received have been duly traced through the Cash Book to the bank. The same principle may be applied to rents payable. In the case of insurance companies it is possible to obtain an independent statement of the premiums which ought to have been collected in any year, and to agree that figure with the cash received, together with the agents' and other balances outstanding, and so to prove the accuracy of the cash received in respect of premiums, instead of ticking off the whole of the Ledgers and examining countless counterfoil receipts. In making agreements of this type the facts are likely to be sifted much more closely than by ticking and casting. An expert auditor will usually apply these more incisive methods where it is possible to do so.

In this series of programmes, in order to avoid repetition, it will be assumed that such ticking as is necessary has been done on a thought-out plan to a definite end, and not merely in a desultory way, and that if only a part, and not the whole of the postings and castings are checked, a variation in the work done is made from year to year, so that in any case some sections of the books are checked completely. For example, the whole of the cash received might be checked to all the Ledgers, the cash items in the Ledgers being subsequently scrutinised in order to make sure that there are no unticked cash items requiring investigation. As already mentioned (in Note 1), the essential point is that the Auditor should feel satisfied as to the accuracy of the Trial Balance—from which the Balance Sheet is raised—as a preliminary to the scrutiny of the Personal and Impersonal Accounts.

The Principles of Costing—I.

By A. Cathles, O.B.E., C.A.

“Without an accurate knowledge of cost of production a manufacturer’s business becomes a game of blind man’s buff.” Mr. Cathles, who makes this statement, was Assistant Controller of the Factory Audit and Costs Department at the Ministry of Munitions. In the following series of articles he explains the fundamental principles to be followed in organising a proper system of Scientific Cost Accounts, a matter on which the advice and help of professional Accountants is insistently called for to-day.

Introductory.

If one were to select haphazard any number of firms in Great Britain to-day who are producing in quantity, say six different articles, and whose accounts show a profit on the year’s working, not 1 per cent. of them could definitely state the proportion of that profit that is being contributed by each class of article produced. The chances are that in the great majority of cases one or two good lines are producing large profits and the others are resulting in losses.

As the practice of costing is spreading so manufacturer after manufacturer is discovering that goods which were considered to be dividend payers are actually the opposite. One example (and it is by no means an isolated case) will serve to illustrate. A small business recently changed hands on the basis of the trading results for the past twelve years. The profits for that period had been steadily in the neighbourhood of £8,000 per annum. No cost, or even departmental, accounts had been kept, but the purchaser, being a live man, investigated the cost of production and sales of each of the five departments. The results obtained from the first four departments were alarming, inasmuch as each showed a working loss, which over the four aggregated £12,000 per annum. The fifth department was turning out a profit of £20,000 per annum. Net result, £8,000 profit.

It is conceivable that it may be necessary in some businesses to sell part of the output at a loss in order to retain a market for the paying lines, but it is essential for the manufacturer to know the amount of the loss he is incurring on the one part and the profit he is making on the other, if he is to be assured of a net profit on the year’s working. Such assurance can only be gained from the employment of some method whereby the cost of manufacturing and marketing each class

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of production is ascertained. Without that knowledge, a manufacturing business becomes as a game of blind man's buff, the manufacturer being the blindfolded one, and the balances (debit and credit) of the Profit and Loss Account being the only other participants in the game. These balances are silent and elusive and as each one is caught it is unrecognisable, and so the game continues until at the end one is in hand, the bandages are stripped from the manufacturer's eyes and he finds that the small or big one he holds is either profit or loss. If it proves to be the former, his hopes have been realised ; if the latter, he can scarcely even guess how it happened.

It may be confidently stated that most manufacturing businesses in this country to-day are run, apart from the technical side of them, on pure guess-work, and that it is by the veriest chance that they make profits. They work on estimates which are often but shots in the dark, and they trust to luck.

Thoughts, beliefs, and hopes all have their proper places in business, as in everyday life, but on cost of production knowledge is *the* essential.

Estimates are the corelatives of costs, and they also have their place in every well-organised business, for it is not sufficient to know what an article does cost, it is necessary to know also what it ought to cost. Neither is sufficient without the other, for what is the use of knowing what an article ought to cost if one does not know what it actually does cost ?

The manufacturer may say that so long as he knows what it does cost him to produce and market an article it is sufficient for his purpose, for then he will know at what price he can afford to sell it. In saying that he would be wrong, for he would be making out that he was content with the volume of business he was doing and with the profit he was making. No up-to-date business man is content with what is. No business can stand still. It must either progress or go backward, and so it must be the aim of every manufacturer to be ever striving, while maintaining the quality, to reduce the cost of his production as the surest road to increased business and increased profit.

Departmental accounts are in a way also Cost Accounts, for on the one side they show the cost of running each department and on the other the proceeds of the work done therein. They are a step in the right direction—they show which departments are being run at a profit and which at a loss—but they do not show which articles manufactured in each department are making that profit or loss. Only a cost system will do that.

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A "cost system" to the uninitiated sounds as understandable as a Greek word to a man who does not know Greek. The general public has a hazy idea that it is some new American invention which, installed in a factory, will of itself work wonders in the way of making articles more cheaply, and generally improve everything by gingering up the workers and increasing the profit for the manufacturer. It is not an American invention, although generally speaking the American manufacturer, being less conservative than his brother on this side of the Atlantic, has been quicker to adopt and instal a cost system in his factories. That he has benefited greatly thereby there is no shadow of doubt, but that even he has yet far to go is evidenced by a statement made at a comparatively recent date by the "Federal Trade Commission" that an amazing number of manufacturers have no adequate system for determining their costs. That statement applies with even greater force to the manufacturers of Great Britain.

The Three Divisions of Expenditure.

In the financial books of a business the expenditure is recorded in numerous accounts, but for the purposes of costing it is divided under three heads only, namely, Wages, Materials, and Oncost, and these three heads cover all of the expenditure which enters into the cost of production and which at the end of the financial periods will be found in the Manufacturing, Trading, and Profit and Loss Accounts. In these accounts, however, will also be found certain expenditures which are not part of the cost of production but which are really appropriations of profit, such as income-tax, excess profits duty, interest, dividends, &c.

"Wages" covers only the earnings of those workers who are directly engaged on production and which can be clearly recognised as chargeable to one definite item of production. Likewise, "Materials" covers only the material that actually enters into the manufactured product. "Oncost" covers the whole of the remaining expenditure, including, *inter alia*, rent, rates, repairs, depreciation, office salaries and expenses, heating, lighting, power, &c., and indirect wages and indirect material. Indirect wages are wages paid which cannot be located as applicable to a definite item of production, e.g. foremen supervising more than one job, process, or operation: general labourers; power plant operatives; repair staff; stores staff; watchmen, &c. Indirect materials are materials that are incidental to the processes of manufacture but do not actually form part of the finished product, such as "tools," "lubricants," &c.

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What a Cost System is.

A system of costing comprises (1) the method of recording and checking the hours worked by all employees on each job, process, or operation, whereby the wages paid to them in respect of these hours may be charged to the particular items of production upon which the wage expenditure has been incurred ; (2) the method of recording and checking the materials used in the factory, whereby the values thereof may be charged to the items of production upon which they have been used ; and (3) the method of collating the remaining expenditure and of arriving at bases upon which such may be spread over the various departments of the factory and over the production in these departments during the period in which the expenditure was incurred.

Organisation of the Factory.

No system of costing will prove successful if the organisation of the factory is bad. In other words, method cannot enter into the collection of the figures upon which costs are based, unless there is already method in the administration of the business. The first step, therefore, in the installation of a cost system is to create an efficient organisation for the works and office, under which the men at the head of each department and section have their duties clearly defined.

An ideal organisation for a business of average size would necessitate at the fountain head a managing director or general manager with whom would rest the final responsibility for all that happened in the factory. Under the managing director and directly responsible to him only for the work of their departments would be :—

Purchasing Department.

1. The Purchasing Manager, whose duty it would be to purchase all raw material, finished parts, and stores required for the business. In most works of any size this post is a most responsible one, and it increases in responsibility as the expenditure involved by its activities increases in value. This department, which is divided into sections to accord with the main classes of material purchased, receives from the works' side advice of the classes and quantities of materials required, and its only duties are to purchase such materials in the best market, to keep records of the orders placed and the deliveries received in respect of same, and to see that suppliers deliver to time.

Production Department.

2. The Works' Manager in charge of the Production Department. It is the function of this officer to manufacture articles or goods in

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such quantities as the managing director instructs, with labour which he himself must find, and with material provided for him by the Purchasing Department.

Under his control are found, beside the activities of the departments and shops actually engaged upon production, the following six sections, viz. :—

- (a) Planning and Progress.
- (b) Labour.
- (c) Welfare.
- (d) Drawing Office.
- (e) Engineering.
- (f) Stores.

When instructions are received for the manufacture of certain articles it is the function of the Planning Section to see that the necessary material is made available ; to see that the requisite drawings and specifications are available for the foremen ; to arrange where, when, and how the work is to be done. It then issues its instructions (works' orders) to the shops, and thereafter watches and records the progress of the work, and if it falls behind schedule it is the duty of this section to take such steps (in consultation where necessary with the officials affected) as are required to enable the return to schedule by time of completion.

The work of the Labour Section comprises the engagement of all workers required in the factory and the keeping of the historical records of each worker so engaged.

The Welfare Section looks after the well-being of the workers during working hours, and also after the healthy entertainment of the workers in their leisure hours. The proper organisation of the work of this section has its beneficial effects upon the efficiency of the work done in the factory.

The Drawing Office is responsible for the working drawings of all articles to be manufactured, and for the drawings of all tools to be used.

The Engineer's duties comprise the supervision of all machinery and of the power supply ; the repair and maintenance of the machinery, together with the installation of new machines and the necessary shafting therefor ; the repair and maintenance of buildings, and the control of any new structural work undertaken by the firm's own staff.

The Storekeeper is responsible for the physical custody of all materials, stores, finished parts, and finished products of the business. His is the duty of seeing that sufficient stocks of all materials, &c., are

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maintained to ensure that none of the work will be held up awaiting supplies, and to this end he must give timeous notice of requirements to the Purchasing Section.

In a large factory it is not possible for the works' manager efficiently to supervise all the production departments or shops himself, and he therefore has the help of assistant works' managers in charge of departments or groups of departments, and under them again the foremen, charge hands, and so on.

Inspection Department.

3. The Chief Inspector in charge of the Inspection Department. The duty of this officer is the essential one of seeing that all products, whether finished goods, finished parts, or only partly finished articles, conform to specification. The necessity for such services as are rendered by this department becomes the greater according as the number of processes or operations through which an article has to pass in the course of manufacture increases. The department is divided into sections to correspond with the manufacturing departments whose production requires inspection.

Sales Department.

4. The Sales Manager at the head of the Sales Department. The function of this department is to sell the products of the business and, after selling, to instruct the storekeeper to deliver. It controls all the agencies of selling, including travellers and advertising, and it receives and tabulates all orders, creating statistics that provide information quickly on the sales of each traveller, the purchases of each customer, the consumpt of each area, &c.

Accountants' Department.

5. The Chief Accountant. The function of this officer is that of recording, in the appropriate books of account, all the dealings of the business in money or money's worth.

The Accountants' Department is divided into five sections in charge of the following assistants, namely :—

- (a) General Accountant.
- (b) Chief Timekeeper.
- (c) Chief Wages Clerk.
- (d) Stores Accountant.
- (e) Cost Accountant.

The duties of the General Accountant consist of the keeping of the usual books of account, including Purchase Journal, Creditors' Ledgers, Sales Day Book, Debtors' Ledgers, General Ledger, Journal, and Bill Books. His staff do not write up the Cash Book (that being done by the cashier), but all postings from Cash Book to Ledgers are done by the General Accountant.

The work of the Chief Timekeeper consists of the organisation and supervision of all timekeeping arrangements, and the keeping of the records of the arrival and departure of each worker in such a manner as will enable the Wages Office to prepare the payroll.

It is the duty of the Wages Office to prepare the payroll from the timekeeping records and to maintain the check between the time

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records and the other records created in the shops of time spent on various jobs (re which see later under "Wages.")

The Stores Accountant has under his charge all Stores Ledgers in which are recorded under the various classes of material, &c., in quantity and value, all receipts into store and all issues therefrom. He is also responsible for the Stock Audit (continuous stocktaking) which is dealt with later under "Materials."

The function of the Cost Accountant is to gather from various sources in the Works, Stores, and the Chief Accountant's Department, information on the time spent on each job, process, or operation, the materials used on same, and the overhead expenses of the business, and to record same in the cost books in such form that the cost of every product of the factory, and every service rendered in or by the factory is ascertainable. The explanation of the methods by which this information is obtained, and the manner in which it is recorded, is the purpose of these articles and will be given as they proceed.

Secretary's Department.

6. The Secretary. This officer's department may be divided into three sections. First he is responsible for the receipt, custody, and disbursement of all money (including the payment of wages) and the recording thereof in the cash books, and for this work he has the services of the cashier and his staff. Beyond the control of the cashier he has all the board work to attend to, and he is responsible for the registration work connected with share issues, transfers of shares, annual returns of shareholders, income-tax, &c. Thirdly, he has the supervision of and responsibility for all the general office staff which does not come specifically under any one department, such as telephone operators, commissionaires, messengers, cleaners, and so on.

The Basis of Costing.

After the organisation of the works and office staff has received attention, the next step in the installation of a cost system is to decide whether the production of the factory is such as will lend itself best to costing by jobs, by processes, or by operations. Job costing is applicable where the orders placed on the shops are for single articles, or for definite quantities of articles which will be produced within a relatively short period. Process costing is used where there is a long run on the manufacture of any articles in the production of which only a small number of operations has to be performed. Operation costing is suitable where repetition work is being done on which the operations are numerous.

In some factories no one form of costing would be suitable for all classes of production, and all three might be employed. The manufacture of motor cars by mass production is a case in point. There the production of component parts would be costed some by process and others by operation, while the final assembly, the body building, &c., would be job costed.

The differences that the form of costing makes are to be found only in the instructions to the shops to proceed with the work and in the final collation of the cost figures by the cost accountant. The system of recording time worked and material used on each job, process, or

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operation, and the method of charging thereto a proportion of the oncost of the business will be the same no matter what form of costing be decided upon.

Works' Orders.

It will be remembered that it is the duty of the Planning Section to arrange the plan of manufacturing campaign and to see that the necessary material is available. When all is ready, the next step is to issue to the foreman concerned instructions to proceed with the work. These instructions are in writing and are commonly known as works' orders. They are serially numbered and provide for the following information :—

- (1) Works' Order No.
- (2) Date of Issue of Order.
- (3) Foreman's Name.
- (4) Department.
- (5) Description of work to be done.
- (6) Specification of material to be used.
- (7) Date for completion of the work.
- (8) Instructions as to delivery when complete.
- (9) Date work commenced.
- (10) Date work finished.

The Works' Orders are issued by the Planning Section with items 1 to 8 filled in, and items 9 and 10 are entered by the foreman. The description of the work will include the quantity. Items 1 to 10 are applicable for job costing. For process costing item 5 will specify the quantity as so much per day or week, and items 7, 9, and 10 might be omitted. For operation costing the form would be the same as for process costing, with the addition that the various operations to be performed would be stated.

In a small factory where there is no Planning Section, the Works' Orders are issued by the works' manager.

The orders are made out in quadruplicate, one copy being issued to the foreman, one to the storekeeper that he may be advised of the material that will be drawn from him, one to the cost accountant that he may be aware of the work being done in the shops, and the fourth copy retained by the Planning Section.

In the cost books an account is opened for each Works' Order and to such account should be charged all wages and materials expended on the work, and a share of the overhead expenses incurred in the business during the period the Works' Order is in force.

Standing Orders.

Only productive work (i.e. actual manufacture of goods for sale) is done under Works' Orders. There is, of course, in every factory what is called unproductive work, such as the repair of buildings, plant, machinery, &c.; the creation of steam or electric power for consumption in the business; the work of stores staff, transport staff, general labourers, &c., and such work has to be controlled and costed also. For this purpose what are known as Standing Order Numbers are fixed for each different class of this unproductive work, and to these numbers are charged all time spent and materials used on such work, as will be explained in future articles.

Legal Obligations and How They May Arise.

By D. F. de l'Hoste Ranking, M.A., LL.D.*

In this interesting paper delivered to members of the Institute of Bookkeepers recently, Dr. Ranking gives an outline of the various legal obligations to which everyone is subject, tells how they have arisen, and illustrates his definitions with practical examples.

"Some are born great; some achieve greatness;
and some have greatness thrust upon them."

We have Malvolio's authority for this statement, and I am going so far to make use of it as to parody it for the purposes of my talk with you to-night. I would put forward the proposition that "all are born "with obligations; most acquire obligations; and very many have "obligations thrust upon them." Let us first see what is meant by an obligation, and we shall then see how impossible it is for us, while living in a normal state, to avoid being subject to obligations. The only person of whom I can at the moment think as being free from obligations is Robinson Crusoe after his shipwreck and before the coming of Friday, he was entitled to say:—

"I am Monarch of all I survey;
My right there is none to dispute."

But no other person, unless in a similar position, could ever make the same boast; the moment any individual comes into contact with another, or others, he and they become mutually subject to obligations. For what is an obligation? It is simply a bond; something which unites an individual to his fellows, giving him rights as against them and subjecting him to duties towards them.

Upholders of the rights of man used to propound as an axiom the statement that "all men are born free and equal," but so far as the question of freedom is concerned this axiom is demonstrably false; the mere fact of a man being born implies that he at once becomes a member of a community, and this in itself negatives the idea of his

*A lecture delivered to members of the Institute of Bookkeepers, London, on March 4th 1920, Mr. Frank H. Finlaison in the chair.

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absolute freedom, since that freedom can only be exercised subject to the equal right to freedom of action of each and every other member of the community. It is a vain boast for anyone to say "I am a free man ; I can do what I please." This is impossible ; every man must so regulate his conduct that he shall not infringe on the rights of others, nor is it any more true for a man to say "I can do what I like with my own." He must so use that which is his that he shall do no hurt to others.

Everyone, then, is under obligations ; some of them moral only, others capable of being enforced by an action at law—that is to say, legal obligations. Of these legal obligations some are born with us, some we acquire by contract, some are thrust upon us by statute or by the action of other persons.

Now, first, as to the obligations which are born with us. Every individual of a community is born with rights, and this very fact involves not only a right pertaining to himself which the law will assist him to enforce, but an obligation, which the law will enforce against him, that he shall not infringe the corresponding right existing for other people. Mr. Underhill, in his work on Torts, divides these rights into those which are absolute, such as the right to personal safety and to the possession of property ; those which are qualified, which consist in the right not to be caused loss ; and public rights, such as the right to use a highway. A violation of any one of these rights constitutes a tort, a term which has been defined as "a wrong arising otherwise than by breach of contract." If, then, any person by an unauthorised act or omission infringes any one of the three classes of rights mentioned above he commits a tort and becomes liable to pay damages to the person injured. For the infringement of an absolute right the sufferer is always entitled to recover damages without its being necessary to prove actual damage suffered ; but if it be a qualified right which has been infringed, then it will be necessary to show actual damage.

The infringement of a right may be active—that is, it may be the result of an action on the part of the offender, done with the intention to infringe the rights of another, and, therefore, in the eye of the law malicious ; or it may be passive—that is, it may be the result of doing something in an unlawful manner or negligently without any intention of causing injury, but which does in fact result in injury to another or others ; or it may be the mere omission to perform some

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duty which you owe to others, such omission resulting in loss or damage.

But in order to constitute a tort the act or omission must be intentional on the part of the offender, and not the result of pure accident ; it must be unauthorised, and the damage must be the natural and probable result of the act or omission. Let us take a few instances from ordinary life to see how the statements just made will apply.

You are going along the street, you slip up and fall through the plate glass window of a shop ; are you under any liability for the damage caused ? The whole question is, Was it a pure accident ? if so, you are under no liability ; or were you negligent ? that is, did you fail to take necessary and proper precautions ? It may be that you were so busy looking at that pretty girl across the road that you failed to look where you stepped—then you are liable. But, you tell me, it was a frosty day, I stepped on some ice, and not only did I fall through the window, but I cut myself badly. How do I stand now ? I shall want to know two things : Were you walking with the ordinary care necessary on a frosty day ? and How came the ice to be there ? You tell me that the shop-boy had been washing the steps or the front of the shop, and water spilt had frozen on the pavement ; then I should tell you that not only are you not liable, but that you have a remedy against the shopkeeper, since your injury arose from the omission of his servant, who, in view of the frost, should have guarded against the possibility of an accident occurring.

Probably more torts are committed involuntarily than voluntarily ; they are rather sins of omission than of commission ; they arise, in fact, from negligence—that is, from failure to perform your duty to others, for where there is no duty there can be no negligence.

What, then, amounts to negligence ? It has been defined as the omission to do something which a prudent and reasonable man would do, or the doing of something which a prudent and reasonable man would not do.

There is a duty imposed on us all to take care that we do no injury to the person or property of others, and the amount of care to be taken will vary according to the circumstances. If you, when in a crowd at a station, elect to carry your stick or umbrella under your arm in such a manner that it causes damage to others you commit a tort ; and still more care will be needed if you are carrying a dangerous weapon of any kind, such as a loaded gun. There is an especial duty

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thrown upon those who are in possession of anything dangerous in its nature to take all precautions against injury to others, even if that injury is caused by the intermeddling of a third person. If you leave a loaded gun about, and a servant or a child, while meddling with it, shoots a third person you are liable, even though you may have given orders that the weapon should not be touched, or that the charge should be withdrawn. Still more is this the case where you supply to another person for use something which you know to be liable to cause injury. Should you in such a case fail to warn the person that special care is needed you will be liable if injury results—thus, where a person negligently compounded a hairwash of dangerous chemicals he was liable for damage caused ; and a firm who sold chlorinated lime were held liable for damage caused by an explosion while it was being opened, because, knowing of the possible danger, they failed to warn the purchaser. This duty is the same even if you receive no benefit from the transaction, as in the case of a gratuitous loan ; if you are asked for the loan of your motor cycle, for instance, and fail to warn the borrower of some defect known to yourself, you will be liable should injury result from the defect. A special duty to see that no injury is caused to the person or property of others is thrown upon those who have possession or control of dangerous animals, or of property of any kind which is of a dangerous nature. If any person keeps a wild animal he is liable for any damage he may do, whether or no he knew that particular animal was dangerous. In the case of injury caused by domestic animals it must be proved that the owner knew or had reason to suppose that the particular animal was dangerous. A farmer keeps a dangerous bull on his own land ; he is not liable for injury which it may do to a trespasser, but he will be liable if it attacks a person to whom he has given permission to cross his land, or if it escapes on to the highway and injures a passer-by.

What is called the rule in *Fletcher v. Rylands* has established the soundness of the Roman maxim “*Sic utere tuo. ut alienum non laedas*,” which means that in using your own property you must be careful that you do not injure your neighbours ; and this, though you may have taken all possible precautions to guard against injury, if injury results, you are liable. You are strolling along the highway smoking ; a gust of wind blows sparks from your pipe over the hedge where they set fire to a hayrick ; you are liable for the damage, even though you may have had a patent cover to prevent anything of the kind happening.

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If you undertake to do a gratuitous service for another you undertake also to use reasonable care, and if your failure to do so amounts to gross negligence you will be liable for damage resulting. You have just got a new motor, and a friend asks you to give him a lift; an accident happens and your friend is injured; you will only be liable if you had failed to exercise reasonable care. But supposing that you, in the same circumstances, feeling "swankey," said to your friend, "Look here, old bean, I've got a new car, come for a spin," then you not only warrant that you will use reasonable care, but you also warrant that you possess the necessary skill; and if through lack of this an accident takes place in crowded traffic you will be liable. In the first case your friend was only a licensee; in the second he was an invitee.

A somewhat similar difference in the nature and extent of the liability towards licensees and invitees respectively arises in the case of the occupiers of premises.

An occupier of premises owes a duty to all persons who come there upon his invitation to use reasonable care to prevent damage from an unusual danger of which he knows or ought to have known. We will suppose that a winter sale at a draper's is largely advertised; there is, as usual, a tremendous rush of lady customers; the floor gives way; the customers fall through into the basement and damage themselves severely; is the owner of the shop liable? He will be if he knew or ought to have known that the floor was unsound, but not otherwise.

In a fairly recent case a lady was staying at an hotel. A fire broke out during the night; she attempted to lower herself from the bedroom window by a rope made from the sheets; the rope broke and she was injured. Was the landlord liable? It was contended on his behalf that there was no need for the guest to seek to escape in this way, since there was an emergency exit at the end of the passage; but this contention was set aside, and it was held that the injury was the direct result of the alarm of fire. The only question then to be decided was, Did the fire originate from some cause of which the landlord ought to have known? The house was an old one modernised, and, as often happens in old houses, there were beams running across one of the chimneys, and one of these had caught fire. This was a possible danger of which the landlord ought to have known, since it was known to his servant, the architect, whom he employed to

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modernise the building, and, in addition, there had been an alarm of a similar kind previously. The landlord was liable.

In the case of a mere licensee, that is to say a person who is in or upon premises not on any business in which the occupier is interested, but simply by permission for his own purposes, the liability is less. The occupier in this case is bound to see only that there is nothing in the nature of a concealed trap—for instance, an open trap-door in the floor left unguarded.

Since the public has a right to use highways, there is a duty on the owners of adjacent property to see that buildings, fences, &c., do not so fall into disrepair as to constitute a nuisance ; otherwise, if injury results to passers-by, they will be liable.

What is the position of the landlords of offices or flats having a common stair if injury result either to a tenant or to some visitor or guest of a tenant owing to the staircase being defective ? It seems very difficult to answer this question, owing to conflicting decisions. There are two views, the first being that, apart from a contract to that effect with the tenant, the landlord is not liable to keep the premises in repair, and is not, therefore, liable for damage to anyone unless it arises from something in the nature of a concealed trap ; while even if there be a contract to repair, this is only between the landlord and the tenant, and could not be sued upon by a servant, guest, or visitor, not even by the wife of the tenant. The other view, and this would strike the ordinary man as the more reasonable, is that the landlord is bound to keep the access to his premises in reasonable repair, and that should he fail to do so he will be liable for resulting injury not only to the tenant himself but to his guests and visitors, since he must contemplate that the premises will be used by such persons.

So much for the liabilities which may be said to attach to us by reason of our birth into an organised community ; we may now proceed to speak of the liabilities which we may voluntarily incur—that is, those arising from contract. This is so wide a subject and depends to so great an extent on the nature and terms of the contract that I can only deal with it under one aspect—that is, the resulting liability of each contracting party to carry out his own portion of the contract and to do nothing to prevent execution by the other party. It is well to remember that if you enter into an absolute and unqualified contract to do a certain thing, it is of no use for you afterwards to say that owing to some happening over which you had no control it has become

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impossible for you to perform your contract ; you ought to have provided for this possibility in the contract itself. Apart from this, your only excuse can be that by an alteration of the law performance has become illegal, or, if it be a contract of personal service, that performance was rendered impossible by the act of God. Take the ordinary case of payment of rent ; supposing you lease premises for a term of years, and those premises are destroyed by fire, you will still have to continue paying rent for the remainder of the lease, unless the lease itself provides otherwise. In a recent case a house held on lease was commandeered by the Government, but this did not in any way free the tenant from his liability to pay rent, though he had not possession of the premises.

Especially in contracts of employment is it essential to remember that a man is strictly bound by the terms of his contract, and that the Court is disinclined to interfere in any way by way of amendment of the term unless such terms are illegal or are, in the opinion of the Court, grossly inequitable. In a contract of employment a condition is very commonly inserted that the employee shall not for a certain period after quitting the service of the employer enter into similar employment within a specified radius. This is, of course, in the nature of a contract in restraint of trade, but it is not on that account necessarily invalid. It is only contracts in general restraint of trade—that is, contracts not to engage in any trade or business—which are illegal and void. If the restraint is only with regard to a particular trade or business, or some portion of a particular trade or business, the only question which will guide the Court in deciding whether the restraint shall or shall not be enforced is this : Is the restraint inequitable ; that is, is the limit of time or space greater than is necessary for the proper protection of the other party to the contract ?

A contract of employment carries with it the liability to exercise good faith towards the employer ; therefore an employee must not only refrain from communicating the details of his employer's business to other persons, but he must also not use for his own benefit information which he has acquired during and by means of the employment—that is to say, information of a special character, such as the names of customers. A clerk leaving his employer's business with the intention of setting up for himself made for his own use a list of the employer's customers and markets and certain other details ; the Courts compelled him to give up the documents containing this information and also to pay damages for breach of trust.

Probably the greatest surprise and consternation will arise when people find, as they often do, that they have had obligations thrust

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upon them through the actions of other persons. Of course, the law constantly imposes on us unpleasant obligations, such as the obligation to pay rates and taxes; or the law may imply an obligation, as, for instance, that if you receive money which ought to have been paid to some other person, you shall repay it to the true owner. But, quite apart from this, people will often find that they are saddled with liabilities owing to the action of other persons. For instance, a principal is liable for torts committed by his agent acting within the scope of his agency, though the principal may be quite ignorant of the tort, and it may even have been committed contrary to the principal's directions. A groom drives his master to the station; he is told to go straight home, but, to please himself, takes a roundabout route and does injury through careless driving: the principal is liable. He may also be liable for dereliction of duty on the part of his agent. The driver of a bus allows a stranger to drive; an injury results. The bus proprietors are liable, because there was a dereliction of duty on the part of the driver, their servant: he had no business to allow a stranger to drive. A man is liable for torts committed by his wife, though he may in no way have sanctioned them, or even known of them; and from this liability he can only free himself by getting a judicial separation. But the tort must be a pure tort, and not one arising out of an independent contract entered into by the wife. A wife had a motor car, her private property, and she engaged a chauffeur to look after it. The garage was in an unsafe condition, and the chauffeur, going into the garage, received injury through something falling from the roof. The husband was not liable, though the premises belonged to him; the injury arose directly out of an independent contract entered into by the wife.

Liabilities may also be thrust upon us by the doctrine of estoppel, which is this: If you by word or act induce another to believe in the existence of a particular state of affairs which does not in fact exist, and that other acting on the belief suffers loss, you must compensate him for the loss. As you no doubt know, a man is not bound to examine his bank pass-book, and if cheques are forged it will be no defence for the bank to plead that he might have discovered the forgery earlier if he had examined the book, but if he does examine it he is entitled to rely on what appears in it. An error was made in adding up the pass-book, whereby a man, under the impression that he had a larger balance than was actually the case, drew certain cheques which were dishonoured. The bank, having misled him, had to pay damages for the injury to his credit.

I have only been able this evening to give you the barest outline of the various modes in which obligations may arise; each of the sections of my lecture might be expanded into many volumes, but I hope that I may have been able to supply you with some little basis for future study.

Income Tax Practice.—I.

The working of the income-tax forms such an important part of an accountant's duties that it is essential that students should be acquainted with the fundamental principles of the tax. It is intended in this series of articles, specially written by the Income-tax Expert of "The Accountant," to treat the subject in a manner intelligible to students, and later, to work up to the higher phases of the subject.

The income-tax does not charge actual income but a statutory income arrived at on bases that vary with the nature of the source of the income. In the near future it is probable that a uniform basis will be substituted as recommended by the Royal Commission, but the present bases will, in any case, exist for a few years in respect of years prior to the year of change, as additional assessments may be made at any time within three years after the year of assessment. The bases are as follow :—

(1) *Three Preceding Years' Average.*

- (a) Trades and businesses.
- (b) Professions.
- (c) Foreign and colonial possessions.
- (d) Employments except under limited companies or public authorities.

(2) *Preceding Year.*

- (a) Bank deposit interest.
- (b) War stock dividends paid without deduction of tax.
- (c) Government stock dividends where not exceeding £5 per annum.

(3) *Year of Assessment.*

- (a) Employments under limited companies and public authorities.
- (b) Manual wage earners.
- (c) Foreign and colonial securities.
- (d) Property.
- (e) Dividends from which tax is deducted at the source.

Income Tax Practice.

The Schedules.

The income-tax is divided into five schedules—A, B, C, D, and E—and separate assessments are made under each schedule. The scope of the schedules is as follows :—

A.—Property.

B.—Farms.

C.—Government dividends paid under deduction of tax.

D.—Trades, businesses, professions, employments other than under limited companies and public authorities, bank interest and other interest paid without deduction of tax, such as on war stocks, foreign and colonial possessions and securities.

E.—Employments under limited companies and public authorities.

The most important schedule is D, and this is divided into six cases, as follows :—

Case 1.—Trades and businesses.

Case 2.—Professions and employments.

Case 3.—Untaxed interest.

Case 4.—Foreign and colonial securities.

Case 5.—Foreign and colonial possessions.

Case 6.—Sweeping case to cover profits not covered by the other cases.

Administration.

The officials with whom an accountant has connections are :—

Inspector of Taxes.—This official is a civil servant and practically the whole of an accountant's income-tax relations are with him. He examines returns and accounts and makes the inquiries on the accounts. In practice, the Inspector makes the initial assessments under Schedule D, and he is the official with whom accountants agree or dispute assessments.

Assessors.—These officials are not civil servants but are appointed by the Local Commissioners, and their sole practical duty is to issue annually the forms of return.

Collector.—The collector is usually assessor also, and he is appointed by the Local Commissioners. His duties are in collecting the tax.

Local Commissioners.—These bodies act in honorary capacities and consist of local persons of standing. They hear appeals of taxpayers

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against assessments, and their decisions on points of fact are final, but there is a right of appeal to the High Court on points of law.

Special Commissioners.—These Commissioners are civil servants without the local associations of Local Commissioners, and the taxpayer has the option of appealing to the Special Commissioners.

Procedure to Assessment.

The first step is the completion of the annual form of return. This is examined by the Inspector of Taxes, who calls for the accounts and addresses to the accountant inquiries as to charges for items that are not deductible. The Inspector's computation of the liability is then submitted to the accountant for agreement. If agreement is not effected, an estimated assessment is made, and, on receipt of the notice of assessment, the accountant gives to the Inspector notice of appeal. This notice must be given within 21 days of the date of the notice of charge. In due course the appeal meeting is held, and the accountant appears and argues the case. The Inspector produces his evidence in support, and the Commissioners then decide the matter.

The Average.

The assessment under Schedule D is made on the average of the three *trading* years ending next before the commencement of the year of assessment. Assume that the profits, after adjustment for income-tax purposes, are:—

Year to 30th September	1917	..	..	£	1,000
" " "	1918	..	..		1,800
" " "	1919	..	..		2,600

The assessment for the year 1920-21, i.e. for the year to 5th April 1921, would be:—

1917	..	..	..	£	1,000
1918	..	..	..		1,800
1919	..	..	..		2,600
					<hr/>
					3)5,400
					<hr/>
					£1,800
					<hr/> <hr/>

Depreciation.

Depreciation is added back in arriving at the adjusted profits of each of the three years forming the average, and an allowance is made from the assessment. Assume that the profits shown in the above

Income Tax Practice.

example are after debiting depreciation of £150 in 1917, £140 in 1918, and £125 in 1919. The average would then be:—

1917	..	..	£	1,000	+	£	150	=	£	1,150
1918	..	..		1,800	+		140	=		1,940
1919	..	..		2,600	+		125	=		2,725
										<hr/>
										3)5,815
										<hr/>
										£1,938
										<hr/>

From this an allowance would be made for depreciation based on the written down value at the end of the last trading year prior to the 6th April 1920, i.e. at 30th September 1919. The written down value is not that shown by the accounts but that written down for income-tax purposes. Assume the following figures:—

Written down value at 30th September 1918	..	..	£	10,000
Allowed 1919-20 at 5%	..	..	..	500
				<hr/>
Additions in year to 30th September 1919	..	..	..	9,500
				3,500
				<hr/>
At 30th September 1919	..	..	..	13,000
Allowed 1920-21 at 5%	..	..	..	650
				<hr/>
				£12,350
				<hr/>

The liability for 1920-21 would thus be £1,938, less £650 depreciation = £1,288.

Allowances.

The following personal allowances are made to an individual, as distinct from a company, when the total income *from all sources* is within the limits mentioned.

Abatements.

Total income not exceeding £130	..	exempt
Exceeding £120	..	£120
" 400	..	600
" 600	..	700

Children.

When total income does not exceed £800 an allowance is made for each child not over 16 years of age at the commencement of the year of assessment. For the first of these children the allowance is £40, and for each of the others £25. When the total income exceeds £800 and does not exceed £1,000 the allowance still applies, but only to children under 16 apart from two of those children.

Wife.

£50 is allowed for a wife when the total income does not exceed £800.

The basis of these allowances is amended by the Budget in view of the report of the Royal Commission, but it will still apply to past years.

(To be continued.)

Income Tax Notes and Comments.

It has now been arranged to reply to Income Tax and Excess Profits Duty queries by post, but only to actual subscribers. The replies will be published in the "Journal" under noms de plume. A stamped addressed envelope should be enclosed.

Examination Questions.

In view of the approach of the Institute examinations it is well to consider carefully the various forms of relief for income-tax and Excess Profits Duty. As an accountant's duty is to obtain the maximum of relief for a taxpayer it is reasonable to anticipate that an examination will pay due regard to such forms of relief as are not allowed without being actually claimed. Many of the war reliefs will be discontinued for 1920-21, but as these reliefs are generally only claimable at the end of a year of assessment, the 1919-20 reliefs are only now due.

A common form of relief is that under the revived Section 133, by which the average is altered from that of the three preceding years to that of the three years including the year of assessment. It should be noted particularly that:—

(a) The depreciation is not affected. Although the average is carried forward by a year the depreciation is still that originally allowed for the year. With a trading year ending at 31st December, the original assessment for the year 1919-20 would be on the average of the three years to 31st December 1918, and the depreciation would be based on the written-down value at 31st December 1918. Under Section 133, the average would be on the three years to 31st December 1919, but the depreciation would still be on the written down value at 31st December 1918.

(b) The diminution in profits must be due to the war.
Section 29 of 1916 Act.

This section allows relief when the actual income of the year of assessment is more than 10 per cent. below the assessed income. The following points should be noted when working examples:—

(a) The relief does not apply if the reduction is exactly 10 per cent.

(b) The *actual income* is the income of the year of assessment calculated on income-tax principles regarding allowable expenses, &c. In the case of some sources of income there may be a larger income in the year of assessment than the assessed income. Bank interest and untaxed War Loan interest are assessed on the basis of the preceding year, so that, on a claim under Section 29, the income of the year of assessment which has to be brought into the claim may be, and often is, larger than the assessed income. The succeeding year's normal assessment is not affected by the Section 29 claim for the preceding year having taken into account the interest which will be normally assessable for such succeeding year.

(c) The difference between the actual profits of a year of assessment from a particular business and the assessment on that business may alone give the 10 per cent. reduction, but if e.g. the client has another business in which the profits of the year are greater than the assessment, the claim may not apply, so that it is necessary to consider every source of income before deciding if a claim applies.

Income Tax Notes and Comments.

(d) If the trading year is made up to, say, 30th June or 30th September, it is the usual practice to split the accounts. Assume e.g. that the 1919-20 assessment on a business is £5,400 and that the profits of the year to 30th June 1919 were £3,000. It would be necessary to await the accounts to 30th June 1920 before the claim would be allowed. Assuming those accounts showed a profit of £2,000, the "actual income" from the business for the purpose of the claim would be :—

		£		£
$\frac{1}{4}$	of	3,000	=	750
$\frac{3}{4}$	of	2,000	=	1,500
				£2,250

Excess Profits Duty Deficiencies.

The points to be noted here are :—

(a) The deficiency does not apply to a successor. Thus, if A. has sold his business to B., the latter does not benefit from A's deficiency.

(b) The deficiency must be calculated at the rates in force during the period in which it accrued. With a trading year to 30th September a deficiency for the year to 30th September 1917 would be as follows :—

$$\frac{1}{4} \text{ at } 60\% + \frac{3}{4} \text{ at } 80\% = 75\%.$$

Similarly, for the year to 30th September 1919, the rate would be :—

$$\frac{1}{4} \text{ at } 80\% + \frac{3}{4} \text{ at } 40\% = 50\%.$$

(c) A deficiency gives a right to repayment, and the repaid sum becomes assessable to income-tax as part of the profit of the year in which it is received. It has already been allowed as a deduction when paid. Assume that a deficiency of £500 arose in the year to 30th September 1919 and that it was repaid on 1st May 1920 against Excess Profits Duty paid for the year to 30th September 1916—it being noted that repayment is made against the earliest year for which there is a payment of Excess Profits Duty. The £500 was allowed against the 1916 profits for income-tax and thus reduced the averages as below :—

Profits Year to 30th Sept.	1914	..	..	..	..	..	..	..	£
	1915	..	..	..	..	..	..	..	6,000
	1916	..	..	..	..	..	..	..	5,000
	1917	..	..	..	..	..	..	..	7,000
	1918	..	..	..	..	..	..	..	5,500
	1919	..	..	..	..	..	..	..	6,000
	1920	..	..	..	..	..	..	..	4,000
		..	..	..	..	..	..	..	5,000

The 1917-18 assessment would be :—

1914	..	..	..	..	..	..	£
1915	..	..	..	..	..	..	6,000
1916	..	..	..	..	..	..	5,000
		£7,000	—	£500	=	..	6,500
							3)17,500
							£5,833

The 1918-19 and 1919-20 assessments would be :—

1918-19		£		1919-20		£
1915	5,000	1916
1916	6,500	1917
1917	5,500	1918
			3)17,000			3)18,000
			£5,666			£6,000

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The £500 is thus fully allowed by spreading over the three years' averages. The repayment of £500 becomes a profit of the year to 30th September 1920, and the 1921-22 assessment becomes :—

							£
1918	..	..	..	..	..	..	6,000
1919	..	..	..	..	..	..	4,000
1920	£5,000	+	£500	=	..	..	5,500
							3)15,500
							£5,166

The 1922-23 and 1923-24 averages will complete the charging of the £500.

1890 Act Claims.

In dealing in an examination with questions involving Section 23 of the 1890 Act it should be noted that the main principle of the section is to give *immediate* relief for a trading loss, instead of allowing the loss to fall into subsequent averages. The following points should be carefully watched :—

(a) An increasing rate in the £ is unfavourable to a claim, as allowance in the succeeding three averages would be at a higher rate than in the year in which the loss was made. If e.g. a loss of £1,000 was made in 1919 when the rate was 6s. in the £, and the rate for the succeeding three years was 7s. 6d., a claim would give allowance of £300, whereas by the normal process of the loss falling into the averages the allowance would be £375.

(b) If losses are likely to continue or are of so large an amount that they can neither be fully allowed against tax paid or payable in the year of assessment in which the loss occurred nor in succeeding averages owing to *average losses* being shown, it may be advisable to claim relief under the section irrespective of any future increase in rates in the £.

Directors' Fees.

A correspondent, "Student," asks if any increased directors' fees have been allowed for Excess Profits Duty on the ground of the high cost of living.

Legally, the Revenue is empowered to disallow *all* increases in remuneration of directors. In practice, the question of increased cost of living has been generally disregarded, just as, legally, the Duty itself makes no provision for such increases in the case of a proprietor of a business. Increased labours of a director have also been disregarded in practice. It could be urged that the pre-war standard has been reduced by the directors' fees paid in the pre-war years and that the accounting period profits should be reduced by the equivalent in value during the accounting period. To this it could, however, be replied that the disallowance is made because of the similarity between the shareholding director and a partner in a firm, and that a disallowance of the *whole* of the remuneration in the pre-war period and the accounting period would be equivalent to treating the director as a partner and would give the same result as disallowing the increased remuneration only.

EDITORIAL.

What is an Accountant ?

It is undoubtedly an anomaly that in a paper devoted to the interests of accountants this question should form the subject of an article, yet how many of our readers could give a comprehensive definition in answer thereto.

Who are included under the generic term accountant ? There are :—

- (1) Chartered Accountants who are either Fellows or Associates of the Institute of Chartered Accountants in England.
- (2) Incorporated Accountants who are either Fellows or Associates of the Society of Accountants and Auditors in England.
- (3) Chartered Accountants belonging to the Scotch Societies.
- (4) Chartered Accountants belonging to the Irish Institute.
- (5) Accountants in practice engaged chiefly on professional accountancy work who, in some cases, are members of other societies.
- (6) Accountants in practice who describe themselves as such, although doing very little accountancy work, their principal business being Rent and Debt Collecting and Insurance Agencies.
- (7) Accountants in Government Departments and Municipal and County Council offices.
- (8) Accountants to Public and Private Limited Companies and private concerns.
- (9) Accountants who act as clerks to Professional Accountants.
- (10) Accountants who, in reality, are Ledger Clerks.
- (11) Cost Accountants.
- (12) Turf Accountants (the best arithmeticians of all !)

We do not suggest that the above list is complete, but it indicates how wide a meaning is embraced by the term "Accountant."

So far as professional accountants are concerned, their work is of a varied character, including (inter alia) :—

- (1) Audit of the accounts of every type of concern.
- (2) Installation of systems of accounting.
- (3) Preparation of Trading Accounts and Balance Sheets for concerns where the firm's accountants are unable to do so.
- (4) Investigations of all kinds.
- (5) Acting as Trustees in Bankruptcy and Deeds of Arrangement, and Liquidators in Company Winding-up.
- (6) Acting as Receivers.
- (7) Acting as Secretaries to Limited Companies.
- (8) Company promotion.
- (9) Financial Advisers to Companies and Individuals.
- (10) Writing-up Trust books.
- (11) Income-tax and Excess Profits Duty work.
- (12) Arbitrations.

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- (13) Acting as Accountants to "Pools" and Trade Societies.
- (14) Installation of Cost Systems.
- (15) Acting as Directors of Public Companies.

When the question of "Legislation for the Profession"—a subject which has been under consideration for many years—is closely examined, does it not become one of great complexity to suggest any solution which, whilst not affecting the interests of all parties, will at the same time afford protection to the public, who are entitled to know what is an "Accountant" when they have occasion to need the assistance of a member of the profession.

The fusion of the Institute of Chartered Accountants with the Society of Accountants and Auditors might be a step in the right direction and remove some of the difficulties, but it is unlikely the sole right to use the term "Accountant" would be given to the members of those two bodies to the exclusion of all others. If a man has carried on his business honestly and to the best of his ability, even if he is not sufficiently expert to reach a certain standard, it would not be equitable to prevent his use of a description merely because it is also used by other persons who have attained a higher standard. On the other hand, in the interests of the community it is undesirable that certain persons, by the use of a trade description, should represent themselves as competent to do certain work, when actually they do not possess the necessary degree of efficiency.

The problem is one which some day will have to be faced; the danger is that an occasion may suddenly arise bringing about hurried legislation that will not prove a true solution. It is a matter more particularly affecting the interests of the younger men, and it should be their object to consider the question from every standpoint, in the hope that some practical scheme may be evolved.

One way—we do not put it forward as a recommendation—would be to "scrap" *all* the existing organisations and to form entirely new bodies with fixed descriptions, certain defined work falling to each class.

Existing practitioners might be allowed to belong to two or more such Associations, if their existing businesses so justified, but future membership would be restricted to one group only.

Instead of unification of the profession, it would be classification and differentiation. To explain our meaning we will suggest hypothetical groups in which the division might be made.

(1) *Chartered Auditors*.—The Audit of the Accounts of Limited Companies, Private Individuals, Institutions, Societies, &c.; Investigations.

(Members of the Institute or Society would be entitled to membership as a right. Other persons would either have to produce evidence of their fitness or pass prescribed examinations.)

(2) *Public Accountants*.—General Accountancy Work, Installation of Accounting systems, Writing-up books, Preparation of Trading

Editorial.

Accounts and Balance Sheets, and, *on receipt of License from Board of Trade*, acting as—

- (a) Trustee or Liquidator, &c.
- (b) Receiver.
- (c) Arbitrator.
- (d) Taxation Expert.

(Admission to membership would be as (1)).

(3) *Trade Accountants* (non-practising).—Accountants to companies or private concerns (including Cost Accountants) who could pass the necessary examination or otherwise produce evidence of fitness for membership.

(4) *Official Accountants*.—Accountants in Government Departments, Municipalities, County Councils, &c.

(5) *Rent, Debt and Miscellaneous Accountants*.—Those carrying on businesses as Accountants not mainly engaged on work under (1) or (2). This section would embrace all accountants not eligible for membership under (1) or (2), and in time would cease to exist.

No other person would be entitled to use the term Accountant.

We should suggest *one* Governing body for the various Sections proposed which would arrange for the examinations of candidates in each division, and generally deal with matters of discipline, such Governing body acting through a Council for each class.

We are fully alive to the many objections which can be advanced against a scheme of this kind, and we do not suggest that it is ideal or even practicable. Our aim is to induce the younger members in the profession to consider the question, and the object of this article is to give them a lead.

There would be many advantages in drawing a more distinct line of demarcation between the functions of the Auditor and the Accountant, particularly from the public point of view. To bring all accountants under one control would open up wonderful possibilities for progress, for research work, and for standardisation of methods and accounting systems. In addition, examinations could be arranged for those who only desired to obtain diplomas as clerks.

Scales of fees could be fixed for different classes of work, salaries placed on a more satisfactory basis, and a power exercised in connection with legislative proposals at present impossible with the lack of unity in the profession which exists.

Let us "scrap" sentiment, let us look at the profession of accountancy from the big point of view, let us fire our imagination with the possibilities that are within our reach. The present high position held by accountants is due entirely to those pioneers who founded the Institute of Chartered Accountants—to them the credit belongs; the forty years' existence of the Institute has not been forty years spent in the Wilderness, but forty years of productive work. It is, however, the burden of the present generation to devise the means to reach the Promised Land.

Notes.

The New Volume.

We hope our readers will appreciate the altered form of the first issue of the new volume of the *Journal*, and that the changes effected will make the periodical of even greater interest than it has been in the past.

Our aim is to provide a monthly paper which will be of practical use to the profession generally, and particularly to accountant students, accountant clerks, and accountants in industrial undertakings.

The new features introduced will, we hope, be regarded as a step in this direction, but we shall nevertheless always be glad to receive suggestions from our readers and to adopt these if practicable.

On the other hand, we do ask our readers to assist us in making the *Journal* known, and we will gladly forward a specimen copy to any of their friends if they will kindly send us their addresses.

The Annual General Meeting of the Institute.

The annual general meeting of the Institute of Chartered Accountants will be held on the 5th May.

The date of the meeting was duly announced in *The Accountant*, together with the names of the retiring members of the Council, in accordance with the recommendations of the Committee which was appointed after the annual general meeting last year to inquire into the constitution of the Council and the method of election of its members.

We shall be interested to see whether the members generally take any action as the result of this notice and whether any additional members are nominated.

Personally, we shall be surprised if any outside nominations are received, particularly as this year all the retiring members are men held in high esteem by the profession generally.

The Budget, 1920.

The following is a summary of the Budget proposals of the Chancellor of the Exchequer as made in the House of Commons on the 19th ult.

INCOME TAX.—Standard rate, 6s. in the £.

DIFFERENTIATION RELIEF.—*Earned* income subject to deduction of one-tenth (maximum deduction £200), to arrive at "assessable" income irrespective of amount of total income.

Assessable income will be amount of "earned" income (less differentiation relief) plus "investment" income (hitherto called "unearned" income).

GRADUATION.—

(a) *Exemption*.—Allowed where total "assessable" income does not exceed £135 (in the case of an individual living with his wife, £225).

Notes.

- (b) *Abatement*.—Allowances of £135 and £225 respectively. [If wife has earned income allowance increased by nine-tenths of such earned income (maximum £45)].
- (c) *Children*.—Allowances from "assessable" income, £36 for one child: £27 for each subsequent child. [No allowance for a child who has an income of over £40 a year in its own right.]
- (d) *Dependent Relatives*.—Allowance from assessable income, £25.
- (e) *Housekeeper*.—Allowance of £45 from assessable income.

[Allowances (b), (c), (d), (e) will be deductions from assessable income, irrespective of amount of total income. Sum remaining will be "taxable" income.]

Reduction of Standard Rate of Tax.—First £225 of "taxable" income shall be charged at half standard rate.

Life Assurance Premiums.—Insurances effected before 22nd June 1916. Total income not exceeding £1,000, allowance of tax at half standard rate. Total income not exceeding £2,000, allowance of tax three-quarters standard rate. Insurances effected after 22nd June 1916: Allowance of tax one-half standard rate, irrespective of amount of income.

British Subject Resident Abroad will be allowed the benefit of various reliefs above.

SUPER TAX.—Exemption limit, £2,000.

						Existing Rates. Incomes ex- ceeding £2,500 chargeable.	Proposed Rates Incomes ex- ceeding £2,000 chargeable.
						s d	s d
On the first £2,000 of the income						Nil	Nil
"	next	500*	(to	£2,500)	.. .. .	1 0	1 6
"	"	500	(to	3,000)	.. .. .	1 6	2 0
"	"	1,000	(to	4,000)	.. .. .	2 0	2 6
"	"	1,000	(to	5,000)	.. .. .	2 6	3 0
"	"	1,000	(to	6,000)	.. .. .	3 0	3 6
"	"	1,000	(to	7,000)	.. .. .	3 6	4 0
"	"	1,000	(to	8,000)	.. .. .	3 6	4 6
"	"	1,000	(to	9,000)	.. .. .	4 0	5 0
"	"	1,000	(to	10,000)	.. .. .	4 0	5 0
"	"	10,000	(to	20,000)	.. .. .	4 6	5 0
"	"	10,000	(to	30,000)	.. .. .	4 6	5 6
"	remainder	(above	30,000)	.. .. .	.. .. .	4 6	6 0

*Under the existing scheme no tax is charged on this £500 unless the total income exceeds £2,500.

No deduction in respect of differentiation and graduation reliefs.

DOUBLE TAX.—There is a proposal for permanent relief from double tax on same income within the British Empire.

EXCESS PROFITS DUTY.—Rate increased from 40 per cent to 60 per cent. as from 1st January 1920, provided a war levy is not imposed later in session.

Excess Mineral Rights Duty.—The same proposals as Excess Profits Duty.

CORPORATION PROFITS TAX.—A proposed tax of 1s. in the £ on profits (after first £500) of limited liability companies. Excess Profits Duty will be treated as a working expense in arriving at profits. If tax exceeds 2s. in the £ on profits remaining after payment of fixed rate of interest and dividends on existing issues of debentures and preference shares, excess is to be remitted.

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LAND VALUES.—Repeal of Increment Value, Reversion, and Undeveloped Land Duties with repayment of duties already paid.

POSTAL RATES.—Letters inland, 3oz. 2d.; per additional oz. $\frac{1}{2}$ d. Letters Colonial and U.S.A., 1oz. 2d.; per additional 1 oz. 1d. Newspapers inland, not exceeding 6ozs., per copy 1d.; per additional 6ozs. $\frac{1}{2}$ d. Parcels inland, 2lbs. 9d., 5lbs. 1s., 8lbs. 1s. 3d., 11lbs. 1s. 6d. Telegrams inland, per word 1d., minimum 1s. Telegrams inland, Sunday 6d. extra. Telegrams inland, portorage 6d. per mile. Money orders inland, £3, 4d.; £10, 6d.; £20, 8d.; £30, 10d.; £40, 1s. Postal orders, not exceeding 2s. 6d., 1d.; 15s., 1 $\frac{1}{2}$ d.; 21s., 2d.

STAMP DUTIES.—(1) Duty on Share Capital of Companies to be increased from 5s. per £100 to £1 per £100. (2) Conveyances, Transfers of Stocks and marketable securities, marketable securities to bearer, and Share Warrants and Stock Certificates to bearer. Rates doubled.

Insurance Policies.—The *ad valorem* duties are to be increased.

Receipts and Scrip Certificates.—Duty to be increased to 2d.

Oncost Charges.

It is surprising how many firms who allocate wages and materials to contracts or departments most accurately do not take the same trouble with regard to the allocation of shop charges and establishment expenses.

Where a firm has several different departments, or manufactures different classes of products involving different processes it is essential that the oncost be properly apportioned so that each bears its proper share.

For example, it is evident that an operation involving the use of heavy plant and little labour must, if the oncost is calculated as a percentage on wages, bear a much higher percentage of oncost than work which consists entirely, or mainly, of hand labour.

The matter is one which calls for most careful investigation, and we suggest that accountants could be of considerable service to their clients by directing their attention to the fallacy of, and misleading results obtained from, the adoption of one uniform rate for all classes of work.

Correspondence.

Practice in Public Speaking.

(To the Editor of *The Accountants' Journal*.)

SIR,—In a recent issue you invited correspondence, so I venture to bring to your notice a matter which I have discussed with several fellow-students.

We feel that the Student Societies do not afford sufficient opportunities for the younger men to practise speaking in public.

I know that after the lectures those present are urged to take part in the subsequent discussion, but, naturally, the young student who is ignorant of the subject-matter of the lecture hesitates to make a fool of himself before the lecturer, particularly as there are often practising members at the meeting.

I would suggest that you urge on the Student Society Committees through the medium of the *Journal* to arrange for more debates between the younger members of the Society on subjects which they do know a little about.

If occasionally a small prize were offered in a "Public Speaking Competition" on some subject previously announced, it might stimulate interest.

It seems to me that it is so necessary for an accountant to be able to speak well in public at company and creditors' meetings that the Student Societies should do everything possible to encourage the practice of this art.

I hope you will take the matter up.

Yours truly,

NOT A CICERO.

18th March 1920.

[We should like to have the views of our readers on this subject. We do not know, however, how we can get the Student Societies to adopt this suggestion, although possibly if they have their attention directed thereto they will endeavour to supply the demand, if such exists.—ED. *Accts. Journal*.]

Student Society Conferences.

(To the Editor of *The Accountants' Journal*.)

SIR,—It seems to me that no effort is made to bring accountant students in different parts of the country into close touch with each other.

True, some of the Societies do occasionally arrange inter-society debates, but only three or four representatives attend from the visiting Society.

What I would suggest is that some sort of a conference be arranged at a convenient centre when lectures could be given and visits to works made and an opportunity given for the students in one place to get to know those in other towns.

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For example, I live in Manchester. Now it should be possible to arrange for a joint conference of members from the Student Societies in Liverpool, Manchester, Leeds, Bradford, and Sheffield some week-end.

Similarly, Nottingham, Leicester, and Sheffield, and perhaps Leeds could fix up a week-end meeting.

Each town has its particular trade, and if the meeting were held, say, in Manchester, arrangements could be made for a visit to some cotton mills and for a lecture on Cotton Mill Accounts; if in Sheffield, some of the big engineering works could be visited and engineering costs discussed.

I hope you will think my idea is practicable and that some of your readers will express their views.

May I take this opportunity of saying how useful I find the *Journal*, and I wish it every success in its attempt to assist the young student.

Yours faithfully,

10th April 1920.

X. Y. X.

Queries and Replies.

(Correspondents who wish to make use of this column are requested to write their queries on one side of the paper only and to be as brief as possible. There is no need to enclose a covering letter if the communication is headed "Accountants' Journal, Queries and Replies column," and signed at the end with the name and address of the sender, which will not be published if the query is signed with a nom de plume.)

Investment of Reserve Fund.

Can you tell me whether a Reserve Fund can exist if not invested specifically in outside securities? If not so invested, where is the "Reserve Fund" if the company go into liquidation.—"SOUND FINANCE."

In reply to "Sound Finance," we would point out that a Reserve Fund is created by transferring a portion of the Profit and Loss Account credit balance to the Reserve Fund Account.

Although in some cases it may be desirable to invest specifically the continued existence of the Reserve Fund depends on the existence of the profits out of which it was created.

Thus, if a Reserve Fund of £10,000 be created and invested outside and the next year a loss is made, so that there is a debit balance on Profit and Loss Account of £10,000, the Reserve Fund has ceased to exist, although the specific investment may remain.

Arbitrations.

In the case of an arbitration under the Arbitration Act of 1889, how does the arbitrator proceed to get the facts of the case? Do the parties submit a joint statement?—"A.C.A."

The usual procedure is for the claimants to submit a statement "Points of Claim" and for the respondents to put in "Points of Defence."

Copies of correspondence, &c., disclosed on discovery of documents are also given to the arbitrator.

Each side is usually represented by counsel and witnesses examined and cross-examined as in the Courts.

Books of the Month.

THE PROMOTION AND ACCOUNTS OF A PRIVATE LIMITED COMPANY. By M. WEBSTER JENKINSON, C.B.E., F.C.A. $8\frac{1}{2} \times 5\frac{1}{2}$, 90 pp. 7s. 6d. n.

The second edition of Mr. Jenkinson's work makes its appearance at an opportune moment. The arrangement of the book is excellent, and the information, which is given concisely and clearly, includes a summary of the procedure necessary on the conversion of a business into a private limited company with the attendant advantages and disadvantages of so doing, a list of the features which distinguish a Private from a Public Limited Company, and a pro forma set of the entries necessary to open a new company's financial books.

COST OF PRODUCTION. An explanation of Principles and a guide to Practice for the Printing and Allied Trades, with chapters on the application of those principles to other Industries. By JOHN A. WILD. $8\frac{1}{2} \times 5\frac{1}{2}$, viii+96 pp. Second edition. 10s. n.

COMMERCIAL ARBITRATIONS. By E. J. PARRY. $7\frac{1}{4} \times 4\frac{3}{4}$, vii+102 pp. 3s. 6d. n.

REPORT OF THE ROYAL COMMISSION ON THE INCOME TAX. 13 x 8, viii+186 pp. 3s. n.

THE GENERAL PRINCIPLES OF COSTING. By A. CATHLES, O.B.E., C.A. $8\frac{1}{2} \times 5\frac{1}{2}$, 20 pp. 1s. 6d. n.

This is a useful contribution to the literature on "Costing." As its title denotes, it deals broadly with the general principles to be observed in installing a costing system.

THE INCORPORATED ACCOUNTANTS' YEAR BOOK, 1920. $7 \times 4\frac{3}{4}$, xix+534 pp. 2s. 6d. Contains the names of 2,910 members, and the full regulations of the Society.

ADVERTISING AS A VOCATION. By FREDERICK J. ALLEN, A.M. $8 \times 5\frac{1}{2}$, xxii+178 pp. 10s. n.

TRAVELLING SALESMANSHIP. By ARCHER WALL DOUGLAS. viii+153 pp. 10s. n.

MERCANTILE CREDITS AND COLLECTIONS. By CHARLES A. MEYER. $8 \times 5\frac{1}{2}$, xx+302 pp. 18s. n.

HALF-PAST TWELVE. Dinner Hour Studies for the Odd Half-Hours. By GEORGE W. GOUGH. $8\frac{1}{2} \times 5\frac{1}{2}$, 77 pp. (Paper cover). 1s.

INCOME TAX NOTES. Vol. IV. $7\frac{1}{4} \times 4\frac{3}{4}$, xi+350 pp. 18s. n.

Every Accountant who in the course of his practice has to deal with Income Tax and Excess Profits Duty problems—and what practising Accountant has not to do so?—will welcome Volume IV of this useful work, which consists of a selection of the Income Tax Notes which appear weekly in *The Accountant*. The volume shows considerable improvement on Vol. I., as a Table of Statutes and a Table of Cases referenced to the text are included together with an Index. The advantage of the work is that actual cases raised by correspondents are dealt with, and these problems not only cover a wide field, but also are presented from different points of view, so that when difficulties arise it is generally possible to find in one or more of the volumes some case more or less analogous. We regard these "Income Tax Notes" as one of the most useful, if not the most useful, publications for the practising accountant yet issued, and we advise every practitioner to get a copy.

[*Any of the publications noted in this column can be obtained from Gee & Co. (Publishers), Ltd., 14 Queen Victoria Street, E.C. 4, at the prices quoted.]

Students' Society Notes.

The Leicester Chartered Accountants Students' Society.

[Notes contributed by the Society's Special Correspondent, Mr. Reginald Dunn, F.R.M.S.]

The above Society concluded its first post-war session on Wednesday, 10th March, when Mr. Rodwell, A.C.A., delivered a very comprehensive lecture on "Some Points of Income Tax Law." Previous to the lecture, the members were the guests of Mr. W. H. Yates, the President of the Society, at the Oriental Café.

The Society was, like most similar institutions, very seriously affected by the war, and for several years was obliged to suspend operations entirely. In view of this fact, and considering the difficulty of re-organisation during the present unsettled times, the Committee are to be congratulated upon the past session's work. There is, however, still much to be accomplished, and it is hoped during the next term to greatly increase the Society's activities. The Committee will be very glad to welcome as many new members as possible. The greater the membership the larger will be the mutual advantages to be gained by all concerned. Will any Articled Clerks interested make a point of attending the next Annual Meeting? This will take place in June for the election of officers and new members, and also for the arrangement of the next season's programme. The date to be announced later. The Committee will be glad to consider any suggestions from members or prospective members.

All communications should be addressed to the Honorary Secretary, Mr. G. C. Cooke, c/o Messrs. W. H. Yates & Co., New Walk Gates, Leicester.

The records of the Society were well upheld at the November Examinations. Successful members were:—Final, Messrs. Rowley, Clarke and Cooke, Mr. Rowley securing first place, and Mr. Clarke eleventh.

Sheffield Chartered Accountants Students' Society.

[Notes of Meetings, etc., held during March 1920, contributed by Mr. Eric Cameron.]

The month of March 1920 was completely booked with mid-week lectures and meetings, of which the following is a summary:—

March 3rd.—"Ten Minute Papers" were given by the following students:—Mr. G. R. Simons on "The Sale of Goods"; Mr. B. E. Brown on "Hotel Accounts"; Mr. F. Downing on "The Position of the Landlord in Liquidation, Bankruptcies, and Receiverships"; and Mr. A. J. R. Slaney on "Cost Accounts." The papers by Mr. Simons and Mr. Downing were of a legal nature. Mr. Brown gave an open talk on his subject with illustrations on the board, from accounts which he had actually met with in practice. Mr. Slaney's paper was a well-prepared summary of the elements of a sound costing system. All the lecturers expressed their inability to give a paper on any other than a military subject, but immediately proceeded to prove the contrary. It is evident from this meeting that the Society contains several prominent members, especially in view of the fact that a similar evening of short papers was conducted in the Autumn Session 1919 by five other members.

March 11th.—An instructive paper on "The Investigation of the Accounts of a Business with a View to Purchase" was delivered by Mr. H. Edgar Jenkinson, F.C.A. This proved most beneficial to the students, and was followed by an animated discussion.

Students' Society Notes.

March 17th was the occasion of an admirable paper on "Cost Accounts" by Mr. A. Clifford Ridgway, A.C.A., a leading authority on the subject, which has already appeared in the columns of the *Journal*. Numerous questions were asked, to which the lecturer gave lucid replies.

On *March 24th* was held one of the most enjoyable meetings of the session up to the present. This was the Second Annual General Meeting of the "Rubben and Tearem Laundry, Ltd." (registered under the Married Women's Property Act, 1882). The meeting proved boisterous, and fully justified Mr. Ward's remark that he had attended the meeting under the impression he was entering a tap-room. All the Reports and Balance-Sheet and preliminaries to the meeting were chiefly prepared by Mr. S. E. Warburton, M.C., M.M., who acted as Chairman of Directors (Lord Worthabit, R.I.P.). A full report of this meeting has been sent to the *Journal*,* and it is almost superfluous to say that a livelier meeting of the Society has not been held for many years.

In addition to these mid-week gatherings, the usual Examination Preparation Classes have been held every Saturday morning. The Accountancy and Auditing Classes are conducted by Mr. F. C. Young, F.C.A., and the Law Classes by Mr. Raymond Meeke, LL.B. These are always attended by a large number of students, and the classes are proceeding on very satisfactory lines, in fact, the large attendance may, it is feared, necessitate the hiring a larger room for our meetings.

During the past two months (February and March), our two joint Secretaries, Messrs. E. O. Cameron and F. W. Porritt, have both been engaged on business in London. However, their duties have been carried on temporarily by Mr. F. Downing, assisted by Mr. S. Jones, in a very successful manner.

We regret the departure from our midst of Mr. V. B. Elliott, a late member of the Committee, who has been transferred to the London Society.

* This report will be printed in an early issue.—ED.

Monthly Calendar.

May 5th, Wednesday.—INSTITUTE OF CHARTERED ACCOUNTANTS.—Annual Meeting at the Hall of the Institute, Moorgate Place, London, E.C., 2 p.m.

May 6th, Thursday.—First of a Course of Eight Weekly Lectures on "The Organisation of Payment by Results," by Mr. J. E. Powell, at Central Hall, Westminster, at 7 p.m. (Tickets for Course, price 2 guineas, obtainable from E. T. Elbourne, 110 Victoria Street, S.W. 1.)

May 11th, Tuesday.—EFFICIENCY CLUB.—Lecture: "An Inefficient on Efficiency," by Mr. S. K. B. Caulfield, F.R.I.B.A., 7.30 p.m., at Central Hall, Westminster.

SOUTH WALES AND MONMOUTHSHIRE CHARTERED ACCOUNTANT STUDENTS' SOCIETY.—Annual General Meeting.

May 13th, Thursday.—OFFICE MACHINERY USERS' ASSOCIATION.—Demonstration on "Addressograph" Machines, 6.30 p.m., in Hall 43, Winchester House, London, E.C.

May 14th, Friday.—NATIONAL GUILD OF ACCOUNTANTS' CLERKS.—Mass meeting of Accountants' Clerks at Great Hall, Winchester House, Old Broad Street, E.C., at 6 p.m., Mr. J. F. Kirby, A.S.A.A., in the chair.

May 15th, Saturday.—MIDLAND STUDENTS' SOCIETY OF MUNICIPAL TREASURERS AND ACCOUNTANTS.—Annual Meeting and Social Evening, 5 p.m., at Birmingham.

Legal Notes.

By Albert Crew, Barrister-at-Law.

An up-to-date knowledge of recent decisions in the Courts is of the greatest value to accountants and business men and to students reading for their examinations. In this column will be noted the salient features of the leading cases decided during the preceding month.

Bills of Exchange.

Meaning of Customer of a Bank and the Test of Negligence in reference to Section 82 of the Bills of Exchange Act, 1882.

A person whose money has been accepted by a bank on the footing that it undertakes to honour cheques up to the amount standing to his credit is, whether his connection with the bank is of short or long standing, a *customer* of the bank within the meaning of Section 88 (1) of the Bills of Exchange Act, 1909 (Australian statute), which is in the same terms as Section 82 of the Bills of Exchange Act, 1882 (Imperial statute), which provides that where a banker in good faith, and without negligence, receives payment for a customer of a cheque crossed generally or specially to himself, and the customer has no title or a defective title thereto, the banker shall not incur any liability to the true owner of the cheque by reason only of having received such payment. The test of negligence within the meaning of the same section is whether the transaction of paying in any given cheque, coupled with the circumstances antecedent and present, was so out of the ordinary course that it ought to have aroused doubts in the bankers' minds, and caused them to make inquiry. *Commissioners of Taxation v. English, Scottish and Australian Bank* (1920, 36 T.L.R. 305).

Notice of Dishonour to Continuing Partner.

When a bill drawn by partners is dishonoured after the dissolution of the partnership, notice of dishonour to the continuing partner is sufficient notice to the retiring partner. *Goldfarb v. Bartlett* (1920, 1 K.B. 639).

Companies.

Apportionment of Dividend.

A testator who died in November 1905 owned preferred shares in a company whose profits were applicable in the first place to the payment of a fixed 6 per cent. cumulative dividend on the preferred shares. The financial year of the company ended on June 30th. No profits were made in 1904 or 1905, but in 1906 and 1907 a considerable profit was made, in consequence of which the directors declared an interim dividend of 18 per cent. in December 1907 on the preferred shares, which was to "cover the" cumulative dividend on the preferred shares for the three years ending "June 30th 1907." It was held that Sections 2 and 5 of the Apportionment Act, 1870, did not make the dividend apportionable, as between the testator's residuary estate and the persons entitled to the shares under the will, as the shareholders acquired no right to a dividend until profits had been made and a dividend had been declared, as the dividend was in law only a dividend for the year ending June 30th 1907, and could not be deemed to include the two previous years. *In re Wakley* (1920, 36 T.L.R. 324).

Appointment of Managing Director without Qualifying Shares.

The directors of the plaintiff company appointed the defendant as managing director of the company up to July 1st next, and upon the completion of the purchase of Burley's shares this appointment be confirmed, the salary

Legal Notes.

to be paid him to be left to a later date. The defendant never acquired the shares, which were a necessary qualification for being a director, and his appointment was never confirmed, but he acted as director for two and a half months, and was paid salary. It was held that as the defendant had no right to the office the plaintiffs were entitled to recover back from him the money paid as salary, with interest, from the date when they had demanded it back. *Brown & Green, Ltd. v. Hayes* (1920, 36 T.L.R. 330).

Right to Interest on Contracts of Indemnity.

The rule as to interest being payable on sums which ought to have been paid by a person who has contracted as a surety, applies not merely to suretyship contracts, but to contracts of indemnity generally. *Omnium Insurance Corporation v. United London & Scottish Insurance Co.* (1920, 36 T.L.R. 386).

Insurance.

Theft following Forcible and Violent Entry of Premises.

The appellant, Calf, insured with the respondents, Sun Insurance Co., against burglary and housebreaking in respect of business premises (in which he also resided), provided that if the property described in the proposal and schedule, whilst contained within the "premises" occupied by the insured, should be stolen by theft following upon an actual forcible and violent entry of the said premises by the person or persons committing such theft, the respondents would make good the loss. A thief, without any force or violence, hid himself in the cellar before the premises were locked up for the night, and having afterwards got into the shop through several doors, one which he had to force open, he stole a quantity of goods.

It was held that although the thief had got into the building without using force, yet as the word "premises" in the policy meant the business part of the premises, and did not include the residential part, and as the thief had made a forcible and violent entry into the shop, there was an actual forcible and violent entry of the premises within the meaning of the policy, and the insurance company was liable thereon. *Calf v. Sun Insurance Co.* (1920, 36 T.L.R. 347).

Employers' Duty to Affix Stamps to Insurance Card.

The consolidated regulations made under the National Insurance Act, 1911, imposes on employers the obligation to affix stamps to the contributor's card before paying wages for the period in respect of which the contributions are payable, and that obligation is not complied with by affixing within six days after the expiration of the period of currency of the card stamps in respect of all the weekly contributions payable during such period. *Gladstone v. Burton* (1920, 89 L.J.K.B. 302).

Meetings.

Expulsion from Club at a Meeting at which One Member was not Summoned.

A member of a club was expelled at a meeting of a committee, one of the members of which, though within summonable distance, was not summoned, on the ground that she was only a nominal member. It was held that the meeting of the committee was not properly constituted, and that the plaintiff was entitled to damages. *Young v. The Ladies Imperial Club* (1920, 36 T.L.R. 392).

Registration of Business Names.

Omission to Register.

In an *ex parte* application on behalf of B. E. Smith, that he might be relieved from all disabilities imposed by Section 8 of the Registration of Business Names Act, 1916, to which he remained liable by reason of his default in furnishing particulars for registration to the registrar from

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November 5th 1918 to January 14th 1920, it was ordered that the applicant must publish in a local paper notice of his intention to apply for general relief on a particular day, and give intimation that any debtor under any contract between November 5th 1918 to January 14th 1920 who desired to oppose the application, on the ground that if the Act had been complied with he would not have entered into any contract with the applicant, or on any other grounds, should appear and oppose the making of the order applied for. *In re Smith* (1920, W.N. 115).

Wills and Executors.

Plaintiff in an Action for Revocation has Right to Call Witnesses to Prove the Negative.

In an action in which the plaintiff claims revocation of the probate of a will on the ground of undue execution, and in the statement of claim alleges as the substance of the case that he puts to the defendants to prove that the requirements of the Wills Act, 1837, were duly complied with, the plaintiff is entitled, not merely to cross-examine the defendants' witnesses, but to call witnesses to negative due execution. *Patrick v. Havercroft* (1920, 36 T.L.R. 290).

Incorporated Documents in a Will.

Except in special circumstances, documents referred to and identified in a will ought to be included in the probate. It is an obvious advantage that the persons whose duty it is to administer the estate should have before them in the grant the whole of the papers which govern their duties. *In re Jones* (1920, 36 T.L.R. 294).

Clear Annual Sum Free of Income Tax.

A direction by a testator that his trustees shall pay to his widow the clear annual sum of £4,000 free from income-tax is a direction to pay that sum free of super-tax also. *In re Crosse* (1920, 89 L.J. Ch. 145).

Undue Influence.

When once it is proved that a will has been executed with due solemnities by a person of competent understanding, and apparently a free agent, the burden of proving that it was executed under undue influence rests on the person who so alleges. That burden is not discharged by showing merely that the beneficiary had the power unduly to overbear the will of the testator; it must be shown that in the particular case the power has been exercised, and that execution of the will was obtained thereby. *Craig v. Lamoureux* (1920, A.C. 349).

Appropriation of Pecuniary Legacy to an Infant, and Investment of the Same.

An executor cannot, by appropriating the amount of a pecuniary legacy given to an infant, and investing the same in any investment in which money under the control of the Court ought properly to be invested, render himself free to distribute the residue of his testator's estate without incurring personal liability in respect of the legacy and prevent recourse to the testator's residuary estate by the legatee if the fund so created should prove insufficient to pay the legacy in full upon his coming of age. *In re Salomons* (1920, 1 Ch. 290).

Gift on Condition of Donee Obtaining Title of Honour.

A gift by will to a person on condition of his obtaining the title of baronet or other title superior thereto, was held to be valid as not offending against public policy. *In re Wallace* (1920, W.N. 145).

The National Guild of Accountants' Clerks.

Messrs. Francis Parry & Co., the General Secretaries of the National Guild of Accountants' Clerks, have contributed the following statement, setting out its objects and policy, and explaining the reasons for its foundation.

The need of organisation has of recent years manifested itself among all classes of professional and business men, and to-day there is hardly a class which is not represented by its Guild, Union, or Corporation. Those engaged in the accountancy profession have been slow to realise the necessity of organisation, due perhaps to the fear of "victimisation."

The Guild was inaugurated at the direct request of accountants returning from H.M. Forces, who found that they were expected to begin again where they had left off in 1914 or 1915, little or no account being taken of the increased cost of living or the fact that the returned members of the staff had aged some four or five years. Attempts to strangle the Guild in its infancy were made, despite the fact that the clerks have endeavoured to meet the practising accountants through the medium of a "Whitley Council," without in any way interfering with the good relations hitherto existing between the inner and outer office.

Over fifty "Whitley Councils" have been formed, in accordance with the recommendations of the Whitley Report, which has been adopted by H.M. Government, and which states:—"Joint consultation between employers and employed promotes the best interests of all concerned."

Whilst a "Whitley Council" has been found to be both desirable and practicable for the Civil Service, it is said that it is quite inapplicable to the accountancy profession. True, there are difficulties, but are they insurmountable? Accountants' clerks are already graded to a considerable extent, and where there is a will there is a way! No doubt the apathy of the employer is born of the fact that he realises that sooner or later higher salaries must be paid to those performing highly skilled and responsible duties for him. What does he hope to gain, in the long run, by "delaying the evil day?"

The National Guild of Accountants' Clerks was inaugurated at Bristol on the 17th October, 1919, since when large mass meetings have been held at Birmingham, Liverpool and Manchester, each of which centres now boasts a large following, and on the 26th February last a mass meeting of London's accountants' clerks was convened in order formally to inaugurate the "London Branch." If any one doubted the clerks' determination to secure a reasonable living wage (and they are not asking for more), his mind would have been set at rest by a visit to the Great Hall, Winchester House, E.C., which was crowded to overflowing by dissatisfied but determined clerks!

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Many practising accountants have signified their approval of the formation of the Guild, admitting that a Whitley Council seems to be the best means of bringing about the very necessary adjustment of fees and salaries.

There is yet time for those in authority to meet the Guild in the same manner, as all other bodies of employers are showing their willingness to negotiate with the elected representatives of the employees, with a view to removing any just causes of friction.

Whilst a docker can demand and obtain a minimum of 16s. per day, and an ordinary policeman can earn £5 7s. 6d. per week, is it not time that accountants' clerks should receive at least as much as the recognised wage of the average working man? Speaking generally, the skilled accountants' clerk is actually paid less than the working man to-day.

Why are the best brains leaving the accountancy profession?—a fact which is beyond dispute. And why is the senior audit clerk paid considerably less than the bookkeeper, whose books he audits? The answer is: The failure of the accountants' clerks to realise the advantages of concerted action.

A representative Provisional Council has been elected from the members of the various "Branch Committees," which will continue to conduct the affairs of the Guild, until such time as a National Council is elected.

Further particulars of the activities of this Council can be obtained on application to the National Guild of Accountants' Clerks, Kennan's House, Crown Court, Cheapside, London.

The Business Doctor.

The number of clients who think that a mere inspection of the books of account is sufficient to justify an auditor in certifying that things are as they should be, without any qualification, is still unfortunately large; and the auditor is placed in a most difficult position. He must determine whether or not he can consent to make such an incomplete and valueless audit. In nine cases out of ten he is compelled to make the audit, and when appending his qualifying certificate will point out to the client that no value can be attached to a statement such as that in question. It is the province of the Accountant to make opportunities. It is also his province to devise systems for the government of business—be it bank or factory; and it is also his province to devise systems which may simplify methods, decrease expenses and thus transform losing ventures into profit-sharing enterprises. The public accountant's work in connection with Income Taxes is another aid to the business community. Clients are often, for a relatively small fee, saved large sums of money in this connection alone. The matter of costing, too, is becoming recognised as essential. One great advantage which the public accountant has over many professions is this—a season of good times means a full share of prosperity to the Accountant. A season of hard times only increases business for him!—From *The Federal Accountant*.

Office Organisation and Management.

By R. T. McCutcheon, F.L.A.A.*

Accountants of to-day are frequently asked to advise on matters of Office Organisation and Management. The following paper read before the Leicester Chartered Accountant Students will be found to contain much sound practical information on this important subject.

Perhaps some of you may not be certain as to the practical results to be secured by the accountant in the study and consideration of the subject of office organisation and management. You may think that this subject does not vitally affect the accountant in public practice. Nevertheless, the accountant is peculiarly well-fitted, on the completion of an audit, to advise on the efficiency of the office organisation of his client. He has had access to all the records and has seen the staff working under various conditions. He is able, therefore, to give suggestions, if requested, relative to the improvement of the arrangements. He can form an opinion as to whether there is a redundancy of staff, whether the arrangements of the office, the lay-out of the work, and the selection of equipment can be bettered, and whether there is repetition of records. It is even possible for the accountant to be entrusted with the duty of reorganising his client's office on modern lines.

Moreover, the accountant of to-day is becoming more identified with the constructive side of business and industry. The former days, when the accountant's duties were concerned with the burial rites of an insolvent's affairs, are now past, and these earlier conceptions of the accountant's activities will not now be accepted as a true representation of his usefulness. Instead of assisting in the winding-up of the affairs of a bankrupt, we now find the accountant as an integral force within the large commercial, manufacturing, or industrial company devoted to the financial development and success of his employer's business, and he is worth his money. His training enables him to organise on the best lines; to introduce the best and most effective methods; he calls for the right reports and statistics; traces leakages, and is able to furnish instructive information and to give solid advice to the proprietors or directors. Accordingly, it is good for the accountant, to keep himself conversant with the best and latest ideas of scientific office management.

What do we mean by "organisation"? Might it not be shortly described by the one word "forethought." It is the power to anticipate and provide for contingencies. It has been defined as a combination of all the elements necessary to bring about a desired result, and this organisation is realised when the various elements are combined in such a manner that they will work harmoniously, accurately, and

* A paper read before the members of the Leicester Chartered Accountants Students Society on Wednesday, the 18th February 1920.

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promptly, and will achieve the desired results with the highest economy of effort and the smallest expenditure of money. The elimination of waste and leakage is the aim of the present age. Nevertheless, an enormous wastage is constantly going on which could be avoided or minimised by the application of the principles of scientific management. For many years the factory and engineering shop have absorbed the greatest share in the attempts made to reduce costs and increase output by the elimination of waste motions, the introduction of the latest and best methods of working, and the most efficient machinery. It has now become apparent, however, that the office has also a claim for attention. You will agree, I think, with the statement that wherever we find old unsystematic office methods still in vogue there are, as a consequence, confusion, inefficiency, high costs, and small profits; but in a concern where everything has been the subject of planning, we find system, order, smooth working, high efficiency, low costs, and prosperity.

In the short period available this evening it is quite impossible to deal adequately with the whole subject of office organisation and management, and I must therefore confine our attention to the main points for consideration. These are: first, accommodation and equipment; second, arrangement of work; and, third, staff.

(1) Accommodation and Equipment.

The situation of an office building is often determined by the situation of the company's works. Where a company has built its own factory there is opportunity to erect a separate office building on the best principles, and this has been done in many cases. If, however, the factory is an old building, and the office is simply accommodated in a section of it, there is no alternative but to make the best of circumstances. In such cases there is a strong likelihood of disturbance due to noise from machinery, and this must always be distracting and prejudicial to office work. Every device should be taken advantage of to reduce the noise to a minimum. Quietness in an office is conducive to work. All noise, therefore, no matter whether it arises from machinery or from too much or too loud talking on the part of workers, must be dealt with. A friend of mine who has knowledge of British and American offices compliments the British office on its quietness as a distinctive feature. This is as it should be, as quietness must always be sought after if thoughtful and efficient work is to be achieved.

If the office is not dependent on proximity to the company's works, it is only necessary to select suitable city premises. The large number of businesses requiring such accommodation has, co-incidental with the commercial development of the country, given rise in our large cities to what is known as the "office building." These buildings are situated in the throb and centre of our city life, where ground space is scarce, and so we sometimes see structures erected so high as to indicate a desire to emulate the "sky scraper" building methods of the United States. Nevertheless, so long as a building is provided with an elevator it does not really matter whether one is situated at the top story or not. Access is easily obtained, and there are compensating advantages in the freer flow of fresh air, clearer day-light, &c.

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The temperature of the office should approximate to 65 degrees, and care should always be taken to keep the atmosphere fresh. Overheating or bad ventilation invariably causes reduction of output and efficiency, the brain becomes dull and listless, and the worker is unable to keep alert and vigorous. You will probably have noticed that, as a general rule, our public libraries are overheated, and the reader, in the course of an hour or two, gradually finds himself unable to get through as much reading as he could have, had the air been kept at a more moderate and reasonable temperature. In order to ensure the best system of ventilation it is advantageous to employ the services of a ventilating engineer who will be able to give expert advice. The cost will be compensated by the increase in office production.

I recollect a case which came under my own observation of an office in which the ventilation was not what it should be, and this was having a prejudicial effect on the worker. The opening of windows did not solve the difficulty, as those next the windows complained of draughts. A ventilating engineer was called in and the system which he recommended was installed, with splendid results.

Expansion is an element in office accommodation which should never be lost sight of. Every proprietor of a business hopes that his business will expand—or at least he ought to—but not every business provides for this hoped-for development. A business gentleman of my acquaintance began business two or three years ago with a small office. The business has developed to his entire satisfaction, but additional accommodation is required. The existing premises are not capable of permitting expansion, nor are other premises to be had, owing to the present scarcity. Fortunately, there is a small space of ground next to his office which is unoccupied, and he proposes to build additional premises there. Notice, however, that he is incurring an unduly heavy expense, which might have been avoided had the expansion been anticipated and provided for at the beginning.

Equipment.—Some of the larger business houses have built much of their special equipment, such as desks and cabinets, not so much for the sake of economy but because it was not possible to get just what they wanted from the stock held by the manufacturers of office fixtures. More recently, however, the manufacturers of such furniture have made careful studies of specialised equipment, and now a desk or table can be procured for almost any kind of office work. In selecting this furniture it is absolutely necessary to consider well in advance the various needs of the office work and the convenience of the worker. A little forethought will save a lot of trouble later. In many cases the type of desk used is that which has no side drawers. If, however, side drawers are provided and these extend to the floor, the best is that which stands clear of the floor, sufficient space being left free at the foot to permit of the removal of dirt and dust. I would remark here that, for executive officers, the roll-top desk is fast disappearing. The objection to this type of desk is that it becomes a receptacle for important papers, which are forgotten, and the pigeon holes become filled with papers which may as well be thrown away, as they are only occupying valuable space. Confidential matters can be kept as well in the flat-top desk as in the roll-top. Moreover, the unnecessary height of a

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roll-top desk reduces light and air. If cards are extensively used, special desks adapted for containing these can be obtained and will be found useful. Even office chairs should be selected with due regard for their suitability. Each member of the staff should have a chair appropriate to his height, and for stenographers special chairs are on the market which are very convenient. It is profitable to think of the reasonable comfort of the staff, as this reflects itself in better work. Then, as regards cabinets for filing purposes, these should be chosen only after mature deliberation and selection of the most suitable filing system, due provision being made for expansion.

Machinery.—The equipment of any large modern office cannot be completed without one or more of the large number of office labour saving machines now obtainable. For example, the days when there were no telephones, typewriters, &c., are happily long past. We sympathise very much with the commercial man of bygone times, who could not dictate letters to a stenographer for typing, or who could not 'phone his client and perform in five minutes what might formerly have taken hours or, in certain circumstances, even days. So many appliances are now available that one is at times breathless in trying to keep up with the rapidity with which the inventor showers the results of his inventive genius on the market, and it undoubtedly behoves the modern office manager to keep alive to the qualities and advantages of at least the more important of these machines. We have the telephone, typewriter, the dictating machine, machines for adding and calculating, billing machines, Hollerith machine for statistical work, copying machines, duplicating machines (including printing machines), addressing and cheque signing machines, the dictograph, tube carriers, mail-openers, cheque protectors, &c. &c. Many so-called labour-saving machines are simply curiosities. They are purchased in a moment of enthusiasm under the persuasive influence of the salesman's eloquence, and subsequently, on proving of less utility than was expected, thrown aside to gather dust or take up valuable space. This is the result of buying too hastily. You must consider the circumstances carefully, convince yourself that the particular machine you are considering is really efficient, economical, and worth having. If possible, get it on trial and test it, and after you have had a good opportunity of coming to an intelligent decision make up your mind and either buy it or reject it. Undoubtedly, office machinery, judiciously selected, will prove an immense saving. It economises energy, facilitates speedy work, ensures accuracy, and by taking away from the worker much of the routine that bores and hinders, renders his occupation more congenial and happy. The tremendous volume of work carried out by some of the large offices in the country would be impossible were it not for the machinery that has been installed in them. Let me recommend to you the book by Professor L. R. Dicksee, F.C.A., on "Office Machinery," published by Gee & Co., London (10s.). This will give detailed information regarding a number of the better machines, and is intended for the use of office managers and others who may be interested in these inventions which have so revolutionised office work.

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(2) Arrangement of Work.

The next point of importance I wish to bring before you is that dealing with the arrangement of work. Having selected your accommodation and equipment, it follows that you must exercise as much care and forethought in the lay-out of the office and staff. How often one is disappointed to find evidence of hurried office planning and lack of efficient organisation in this first principle. Recently a gentleman of my acquaintance has been appointed accountant to a concern, and, on inquiring how he was getting on, he replied that he could give no opinion until he had put the office organisation on right lines and had the work brought up to date. He said that when he took up his appointment he found everything disorganised, no attempt having been made at organisation, the work much behind, and all the indications of inefficiency which inevitably accompany lack of planning.

Even a little forethought would prevent so much confusion.

It is not every business that is fortunate in having an ideal building, and conditions of working, nevertheless it is always possible to make the best of circumstances if we plan ahead.

Before considering the lay-out of an office we must consider the primary problem, viz. the arrangement of work. After you have decided on that, the lay-out will be an easier matter. I think you will agree that, where a considerable volume of work is carried, there must be delegation of duties, and involved in this delegation is the system of departments. The idea that one man can take on his shoulders the entire responsibility and duties of an office is absurd. Yet there are men who persist in the belief that no one can do so well as themselves and who carry their belief to the extent that they refuse to delegate responsibility and load themselves up with matters which it is obviously unprofitable for them to deal with, thus preventing them from giving time to the consideration and the performance of much more onerous, responsible, and profitable duties. I well recollect such a man who was of this type. He lost the respect of his subordinates and superiors and was asked to resign. He failed to seize the opportunity to show capacity for organisation. He was not fitted for leadership.

Under the departmental system we get specialisation. The departmental chiefs are selected for their previous training, experience, and ability to supervise their office sections. By means of the staff and chief continuing to perform the same duties every day, week, or month, they become more skilled in their work, more rapid in production, and their capacity and accuracy are increased. You must consider first of all, therefore, into how many sections the office suitably divides itself, both from the point of view of good organisation and financial prudence. It is with the distribution of work from the financial aspect that the accountant's training is peculiarly fitted to deal. By this I do not mean the question of cost, although that is important. No one can recommend the creation of unnecessary departments. What I wish to emphasise here is the observation of the principles of internal check with which every accountant is familiar. Internal check must loom largely in the office manager's mind when he decides on his

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distribution of work and on his selection of departments, and once his mind is made up on this matter he can then proceed to lay out the equipment. It will always be found advantageous to plan disposition of equipment so as to provide a constant forward movement and rapid and easy communication between departments. Continuity cannot be completely achieved, but much can be done by bringing as near as possible departments that frequently communicate with each other and by the introduction of mechanical aids such as carriers, house telephones, and a regular messenger system. Forward movement must *always* be sought after. It is a waste of time to have work passing from a department near at hand to one situated in a far distant corner, if they can be brought closer together. The peculiar circumstances and needs of the business must again be kept in your mind—that is, the nature of the business, the volume of work done, and the general policy of the proprietors.

It is a good plan, after having allotted the space to each department, to cut small squares of cardboard of different colours, each colour representing a department. These squares, cut to scale, may be placed on a plan drawn on a large sheet of paper. Under this method there is no great difficulty in placing the office equipment. This plan can be amplified so that separate pieces of cardboard can be cut to represent each part of the equipment. This enables those in charge to move the cards about until the ideal arrangement of furniture and equipment is arrived at. By this method a large removal could be effected within one day without inconvenience. I have seen removals effected under this plan. At the close of an evening the staff went away as usual, thereafter the workmen arrived and removed furniture and equipment to their new positions under the direct guidance of those in charge of the plan. In the morning, when the staff arrived, they were directed to their new places and ready to commence work at the usual time, *but under the new plan of work.*

It is not possible to consider each department in detail. We will probably find interest, however, in referring to one or two sections of the office work as indicative of what is to be watched. For example, we will consider, first, orders received and issued; second, wages; third, the filing department. The first two raise financial arrangements, and the third refers purely to office arrangements. First, what is the principle to be observed in dealing with orders received? Is it not to ensure that when the work is done or goods supplied the proper amount is recorded and charged? This is important, and, being so, it will be found advisable to lay down a system to give effect to this requirement. Immediately on receipt of each order, and before it is passed on for attention, a record should be made in an Orders Received Book. Nothing is so disturbing or calculated to affect good relationships than for a customer to find that his order has been overlooked. It will pay to have this Orders Received Book inspected frequently to ensure that no avoidable delays take place. Full details of the order should thereafter be entered in a Manifold Order Book, one copy being retained in the book and the other issued to the stores, warehouse, or department for attention. In the case of a manufacturing or an industrial company the issue will take the form of an order with a special job

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number, accompanied by all the necessary forms for the works and also for costing analysis. The issue of the goods should be entered through a Goods Issued Book, and this book, or an advice of issue, should be sent to the office to be compared with the Order Book. The duplicate order form could be printed so as to return to the order clerk to note. The invoice clerk would then extend the prices for orders completed, which should be checked. The invoice itself should then be made out and the entry made in the Day Book. Sometimes the invoice and the Day Book are combined by being prepared in duplicate form, the second copy being retained and totalled with the others at the end of the month. Finally, the invoices should be verified with the Order Book, and the Order Book entry closed, so that any orders uncompleted or not invoiced will be easily recognised. As already indicated, in the event of the order involving the manufacture of an article, this will involve the costing records, and on completion of the order the amount chargeable might depend on the quotation or tender submitted, but with this addition, the system outlined above will apply in principle. Goods returned should be recorded in a Returns Inwards Book, and if this is kept at the stores, then an advice should be sent to the counting-house so that the records may be kept properly and credit allowed to the customer. I recollect a case where, owing to faulty administration, one man in charge of a department who possessed a procrastinating temperament had been able to accumulate a good number of completed orders. They had not been charged, and, fearing discovery, he burned the lot. If there had been a good interlocking system of record providing a satisfactory internal check, such an occurrence would have been impossible and a heavy loss avoided. A considerable interval elapsed before the matter was discovered, but it was not the system which brought it to light. So long as there is looseness in the organisation, then there is strong presumption of leakage and even temptation to fraud.

In the case of orders issued or purchases it is important to watch that the goods received are noted and that it is impossible to pay more than the amount due or to pass duplicate accounts for payment. Every order issued will involve expenditure, and, consequently, it is always a good plan to lay down the rule that only certain responsible officials should have power to sanction the ordering of goods, and they should either sign or initial the order before it is sent out. A Goods Inwards Book will be required to record the receipt of goods, and this book can be kept by the storekeeper. Invoices, when received, will be checked by the invoice clerk, who will compare them with the Order Book. All orders should instruct that the number of the order must be quoted on the invoice. The invoice clerk should record on the invoice a reference to the Goods Inwards Book, and the latter book should be referenced to the Invoice Day Book. Further, the order should be marked off with the folios of the Goods Inwards Book and the Invoice Day Book respectively. This provision will prevent any subsequent duplicate invoice being passed and paid. All invoices should be certified, of course, by the department concerned as to prices, quality, &c., before the entry is made in the Invoice Day Book for posting to the Purchase Ledger.

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There is within my knowledge a case of the accountant to a company who, preferring golf, allowed his office organisation to become ineffective. Work frequently got into serious arrears, and his plan was to rush the work up to date periodically. Naturally, invoices did not receive the careful examination and verification they required, and, on investigation, it was made almost certain that invoices rendered for a second time were paid.

In organisation the human element has to be provided for, and you must always arrange so that work left undone will be revealed, and that no loophole exists for possible leakage. This raises the question of adequate control. I am inclined to believe in systems of regular reports from departments giving information as to the position of the various sections of work performed. If these reports are used properly they form a wonderful check on both the work and the workers. I have seen these reports bring to light many matters that would otherwise have remained concealed. They are also valuable in spurring the workers to show good results.

The next section I would mention briefly is the wages section of the office. Here it is necessary to provide a system which will ensure the proper recording of men's time, and in a manufacturing or industrial company these records must also be suitable for their utilisation in the ascertainment of costs. It is in the payment of wages that a large percentage of defalcation takes place, and the utmost care should be taken to ensure that fraud would be difficult unless there exists collusion between two parties. There is the possibility that one employee might be tempted to commit fraud, but he will hesitate before working in collusion with anyone else, and so place his personal safety in the hands of another. In large works the amount of the weekly wage bill is usually a heavy one, and, unfortunately, clerks, passing this money through their hands, have in many instances proved unworthy of trust and confidence. Instances of this kind will probably be known to you. There must exist therefore, a method whereby the exact time when workers enter and leave the works is recorded, and again when they enter and leave the engineering shop. Work done should be noted on time cards, and these records should be sent to the office daily. The introduction of time clocks has been favoured very much lately, but there is a very large and up-to-date establishment on the Clyde which still finds the old "tally" or metal disc system most suitable. Workers paid at piece rates should also record their time of entrance and leaving, and the work done by each man should be recorded on a card. In the wages section of the office separate wages sheets should be compiled for both time and piece-workers, and it is an essential of the organisation to arrange the work on preparation of these sheets, so that the records may be built up daily and that the wages summaries be ready each week without undue haste. Further, records should be checked to ensure accuracy. As piece-work wages are calculated on the work done, the cards, giving full particulars of the work and carrying the initials of the foreman or viewer, should be passed to the office for summarising, and the preparation of wages sheets, the checking of rates, calculations, &c., being done similarly to that applicable to time workers. Payments should not be made

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by those who have to do with the compiling of the wages sheets. This is a duty which should be confined to the cashier's department. Each foreman should be present at the payment of the men under his charge. The pay clerk cannot be expected to identify each workman, but the foreman is there to do so.

The duties in the wages section of the office lend themselves to standardisation. It is possible to have a chart or time-table drawn up for the guidance of wages clerks, showing what work is due to be performed each day so as to ensure everything being up to date and ready without loss of time.

The foregoing sections of the office involve financial matters, but the third and last section of the office to which I wish to refer is the correspondence filing department.

Correspondence files serve three important functions. First, they relieve executive officers and employees of the necessity of keeping in their desks letters and papers to which they expect to refer at some future time. Second, the file is, or should be, a means of definitely and quickly locating correspondence or memoranda of any kind. Third, the files are available to all, and all employees know where certain information is to be obtained. The first function is valuable, yet department heads in many offices continue to keep important letters in their desks in the expectation that they will be sure to find them when required. This reason does not reflect credit on the filing system. A good filing system will produce correspondence more quickly than if hidden away among desk papers. An illustration of the ideal filing system may be found in the public library. There you look up the index, request a certain book, and you do not expect to wait more than a few minutes for it. The reason is that a reliable system is essential to a library ; and should this not apply equally so to an office ? The average office, however, provides itself with very junior employees for filing duties, and, therefore, letters are not always to be obtained when required. The reason is that the importance of accurate filing is not thoroughly understood. It will pay to place a competent person in charge of the filing arrangements ; preferably one with a knowledge of all the best filing systems and who has previously proved himself a methodical and painstaking employee. I am inclined to favour the central filing system, whereby the correspondence for all departments ultimately finds its way to the central filing department. Separate files in each department leads to lack of uniformity and to inconvenience. By making one person responsible, delay and confusion are eliminated. Further, no one should have access to the files except the file clerk or his assistants, and no one should be able to hold up correspondence for an unreasonable time without good excuse. Strict rules on filing will render the filing department more efficient and serviceable. Here, again, it will be found advantageous to introduce a system of regular reports from departments as to the letters held up. Letters received should be entered in a letter register and the department or person to whom the letter is handed should be recorded. When the letter is filed this should be noted in the register by the file clerk, who is thereby able to ascertain outstanding letters without difficulty, also who is the person holding them. It is easy thereafter to intro-

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duce a system of reports regarding letters which have been withheld from the file for an unduly long period. The method of filing employed should be known by all employees, so as to ensure complete co-operation. I do not wish to enter into any controversy as to which is the best filing system. This depends entirely on the size of the office and its requirements. We have travelled a long way from the primitive spindle file with its sharp point sticking in the air, and filing systems are now developed to a high degree of efficiency. The important points to consider are, first, the absolute need for a good filing system, and, second, the selection of the system most appropriate to the circumstances of the business. You can test your filing system by the following inquiries :—

First, is it capable of supplying the particular paper or papers you want ? second, will it do so rapidly and can papers be filed rapidly ? third, can it be done cheaply, efficiently, and simply ?

(3) Staff.

I now wish to refer to the third section into which I have divided the subject—viz. Staff. This section is really the most important of all. When everything is considered, the whole success of the organisation depends on the staff, on the men and women who are to carry it out. When we think of office organisation and management there arises first of all in our minds our conception of a thoroughly efficient organiser. He is the driving force behind the machine impelling the machinery forward. No matter how efficient he may be, however, if he is supported by a poor staff he cannot look for good results. Further, it is possible to have a willing staff, but if they are controlled and guided by an office manager who is incapable, then there will be discontent and inefficiency. Both organisation and management go hand in hand. The one is a corollary of the other, hence the vital importance of ensuring the possession of a man of creative power, imagination, and training. Have you considered the qualities which go to make up the really good and successful organiser ? Is it education ? Undoubtedly education is a most valuable asset, but you will have noticed that many successful men in business were actually handicapped by lack of education, yet they rose to eminence in spite of it. You might suggest commercial training and experience as other qualities. Certainly the responsible work of management cannot be undertaken without these, otherwise expensive mistakes will be made. In this connection I may say that for positions of office control I place a high value on the accountant's training. His studies embrace all sections of finance and control, and no other training so conspicuously fits a man for the organisation and management of a company's financial and office affairs. He must acquire, however, a knowledge and experience of the many practical elements in business, including costing, stores organisation, correspondence, &c., and even in a general way of the manufacturing or works side of the business. A period of service as a departmental chief in the office will provide experience of sectional organisation, and this will be a good training ground for the larger responsibility later on. After all, however, the organiser's qualifications are most difficult to define. They are really a combination of

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qualities, all of which are necessary. He must have the combination of brilliant ability, the power to grasp with rapidity the pros and cons of a case, forethought, perception which will enable him to foretell results in advance with wonderful far-sightedness, the power of detail, the faculty for taking pains, and an orderly brain which will obey his behests and supply the stored-up information when required. He must be self-controlled, cool, courteous, and firm, so that he will ensure obedience and earn the esteem of his subordinates. The loud-voiced bullying manner is evidence of weakness and will lose the respect and confidence of his staff. It will always be found beneficial, even from a purely business aspect, to be served by willing and cheerful employees who know that they will receive approval when it is deserved, rather than that they should go about without a smile, discontented, and probably disloyal. It does not follow, of course, that discontent among the staff will always be caused by bad conditions. There are employees who will create trouble and discontent under the most ideal circumstances. Nevertheless, this is the exception, and if an office manager cultivates the friendship of his subordinates, it will reflect in good relationships and sympathetic hearty co-operation. I should not omit to mention the quality of enthusiasm. The staff will take its cue from the chief. If he is slow they will be slow also; if, however, he is vigorous, alert, healthy, enthusiastic, they cannot help being interested and stimulated to enthusiastic effort. He is the leader, not the driver or the looker-on. He must therefore possess the attributes of successful leadership in business in a marked degree, able to inspire others and to secure confidence and goodwill.

The chiefs of office departments should also be selected for their skill and ability to perform the duties of their particular sections. Previous training and experience will be factors in their choice, and they should be capable of supervising and controlling the staff. Good health is an important element. A chief of an office department must show an example to his subordinates at any time of stress and strain and so enthuse them with vigour and energy until the particular crisis is past.

The selection and training of the general staff is an interesting and profitable study, for no matter how good the office system, the whole fabric can be reduced to worthlessness if operated by careless or inefficient workers. It is only within recent times that employers have given attention to the question of labour turnover. This is especially applicable to offices. It has been discovered that it is an expense—the amount varies considerably—to train a clerk, consequently a serious loss ensues if the labour turnover is unduly high. For example, if an office employs 100 people a year to maintain a force of 50, then the turnover is 100 per cent. Figures are difficult to secure, but the expense of this turnover represents money lost and paid for labour that would not have had to be paid if the original staff had remained. Every endeavour must therefore be made to secure the right man at the start and to give good conditions that will attract and retain able assistants. The right office manager will look for something approaching 100 per cent. efficiency from his staff, but he must first look within himself to see whether his arrangements and office

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conditions will tend to a low or a high efficiency. The fault may not lie with the staff. An employee is an investment, quite as real as any other investment, and the question of its worth depends on its use by the management. First of all, great care should be exercised in the original selection of the employee. This is not an easy task. It involves character reading, insight, and vision. Some concerns find it profitable to concentrate the employment of staff on one section of the office. They find that by this means those engaged in the employment department become expert, in the course of frequent interviewing, in sizing up applicants, and acquiring accuracy of judgment. The usual questions as to qualifications and past record are asked, but, in addition, the shrewd interviewer puts other questions in a courteous, tactful way, as will bring out the required information more clearly. A clever interviewer will get much information from leading questions put pleasantly in the course of conversation. The applicant's manner will be disclosed and many other points will be revealed which will enable the interviewer to arrive at a proper judgment. The main factor which operates when interviewing an applicant is whether or not it will pay to employ him. Sentiment cannot enter into such circumstances. The applicant must therefore convince you that he possesses ability, character, personality, and health. The ability you must look for depends, of course, on the nature of the work to be performed. For minor or routine duties select female labour.

When an employee has been engaged it is wrong to take him to the head of a department with a simple introduction and place his instruction in the hands of that official. The likely result is that he will be placed at a desk and given one piece of work after another with simply a comment as to how it is to be done, or frequently a new clerk is loaded up with numerous verbal instructions, resulting in his forgetting the most of them. The course of training in such a case covers a long time, during which there is much waste of material and time, not to mention expensive errors. It is of the utmost importance that every worker should know exactly what he is to do, how he is to do it, and why.

This instruction nowadays is effected in two ways. In some establishments by means of schools, and, second, by means of Office Manuals.

In the training school each new clerk is given a thorough training in the handling of the work to which he will be allotted. The general policy and the general scope of the business are explained. His relation to the business as a whole is made clear. He is taken through the entire works so that he can get an idea of the various branches of the company's activities and some detail of the scope of its business. This impresses him with the fact that the final purpose of the work of the office is to supply customers with a satisfactory and prompt service. He has a part to perform in that work, and at the end of his training he should know exactly what his part is and realise its importance and its relation to the general scheme.

An Office Manual is a book describing in detail every duty and every operation required in the office. Its purpose should be to furnish every worker in the office with accurate information as to his authority, the work he has to do, exactly how that work has to be done, and his

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relation to the force as a whole, thus minimising verbal explanations, which are rarely complete.

An Office Manual should be divided into two general sections : first, general information as to the policy and scope of the business, together with rules and regulations applying to all employees alike ; second, specific instructions as to the routine of each department.

There can be no question as to the enormous advantages secured through these manuals, especially where the office is large and women are employed. Every employee is firmly impressed by the policy of the establishment as set forth in the manual, and he not only obtains full information as to his own duties but also the duties and responsibilities of his colleagues, thereby giving him a proper conception of the relationship of his duties to that of the whole concern. This undoubtedly educates the workers and promotes sympathetic and hearty co-operation between them. I have seen these Office Manuals in operation and have also compiled them and can speak from experience. Where women clerks are largely employed no other system will produce exactly the same good results. Men clearly understand that their hope of success lies in training themselves and making themselves efficient, so as to make the most of their abilities and enable them to rise above the merely economic level. I suppose, however, there will always exist in the mind of the lady clerk that she is likely to get married. This is probably as it should be, but in numerous instances it tends to make them less anxious to advance in training. There are exceptions, of course, but it will be found particularly useful for the office manager who employs a large female staff to create these Office Manuals, if he wishes to secure the fullest service from the female staff. This will keep each clerk constantly advised as to her duties and routine, and so save her troubling the departmental chief except on unusual matters.

This training of staff naturally leads to the question of scientific management. We must bear in mind that the responsibility for an officer doing his duty does not altogether lie with the worker. Further, the executive must see to it in the first instance that not only is the worker given full instructions as to what his duties are but also that he is made acquainted with the best method of performing them. The science of eliminating waste motions has been very well developed in factories and workshops, but it is a comparatively fresh study so far as the office is concerned. Nevertheless, it can and has been applied with conspicuous success. The office manager who keeps this science constantly before him will reap great profit. It is usually applied to routine duties. Each duty is considered in detail and the exact motions, with the time taken to each, ascertained. Thereafter the whole data obtained should be analysed and the necessary improvements made. The worker should be taught carefully and patiently the new way of doing the work, and if the analysis has been carefully made the worker can easily be shown how to perform the task. The work involved in such a process of training may seem expensive, but it is really most economical. By the new method the worker becomes more productive in a very short space of time, whereas in the older style a worker may have to be employed some time before becoming efficient.

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To ensure the success of such a system the worker's interest and co-operation must be enlisted and stimulated. No secret hole-and-corner methods will do if failure is to be avoided. Workers are human beings and their suspicions are easily aroused if this science is worked in any underhand way. Further, the worker must be convinced that you intend to deal fairly with him. Do not, therefore, set the standard of efficiency too high, as it will establish a feeling of distrust. And, again, you must also avoid too low a standard, as this will indicate that your scientific study is faulty, and the staff will take advantage.

I would strongly emphasise the value of these motion studies. In routine work especially there is hardly a section of activity but which will be improved through the study of the various motions and the elimination of those which are unnecessary. I find, personally, that this section of office organisation is a most profitable one, and have for several years given thought to the matter. To illustrate this section of scientific management, let us consider a business where there is a considerable sorting of forms to be performed daily. The old-fashioned way is to have these sorted out on the top of a desk or on a large table. The worker would have to stand and might also have to make frequent stretches with her arms. Under a proper scientific method, however, you would devise a sorting cabinet or rack, suitably shaped, so that the girl can sit on a chair and will yet be able to reach any portion of the rack or cabinet without any undue stretching. This is attained by the rack or cabinet being shaped like an inverted letter V, and when the worker is seated the rack is really in front and also to each side of her. Numerous positions are made on the rack, with suitable code index letters, indicating what should be inserted in each position. Under this arrangement one company was able to increase the output of work on this duty to a surprising extent, and yet the worker was much less tired than under the older method.

Once the staff is interested in your proposals for increase of efficiency and are convinced that you are sincere in your desire to help them at the same time as you are helping the business, your battle will be won. Unfortunately, in the past there have been grounds for the belief that many of the inventions and improvements were used simply as a means to secure greater output and to reduce staff; or, in other words, to get more and give less. The new era has produced the new employer, and this country has already many examples of great business men who are willing, not only to pay their employees well, but also to assist them in many ways to better conditions of life. Such men have the welfare of their workers at heart. They realise that principle which I have already mentioned, that each employee is an asset, and, if well used, will remain a constant and increasing service. The salaries of workers must, therefore, be fair and reasonable, and when a worker becomes increasingly efficient this should be adequately recompensed. For example, if you found it possible through motion study to introduce a new method, the best way to enlist the worker's co-operation is to set a standard under the new plan, and, if he or she reaches that standard, to reward the worker by an appropriate increase in salary. If the staff once get into their minds that you are trying to get more out of

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them for nothing you will forfeit their confidence, suspicions will set up, and work will be poorly done.

Another method of stimulating enterprise on the part of the staff so as to get better effort is by promotion. Seniority is a factor which must always be considered, but if it were the only factor stagnation will follow. Merit alone must count. Seniority is secondary. This fact, well impressed on the staff, will do more almost than anything else to produce a healthy rivalry and competition for promotion. Once it is understood that the proprietors will not hesitate to reward and promote a really good man who has given evidence of his activity and ability to work well, then there will arise in the staff a keenness to qualify for the higher positions. Clerical work has not reached that stage when it can be standardised, as in trades. Consequently, there cannot be a trade union in office work. It is not appropriate. In this principle of individualism the clerical worker sees that the battle is only to the strong, that the ancient idea of the survival of the fittest carries full weight. He must be able to see, however, that the good fighter for the business will earn the victor's reward. The office manager must, therefore, give fair dealing to his assistants.

Control.

Managerial control is of vital importance. The office manager must keep his finger on the pulse of the business. This is admitted, but in the application of this principle many fail. Control does not mean the dealing with samples of details gathered up from here and there in haphazard fashion. This only results in confusing the mind and burdening oneself with matters which subordinates are paid to deal with. It is very probable that an office manager who attempts this weak system of control will have his desk littered with delayed correspondence. An executive should never require to deal with details unless they are outside the ordinary. He is only interested in results, and, consequently, if things are not going ahead satisfactorily there should be a method in force whereby this fact will be disclosed without investigation. This is achieved by means of weekly, or monthly, reports from heads of departments, comparative statistical matter, graphs, &c.

A good medium of automatic control for the office manager is provided by means of the Master Chart. This is a chart showing down the left-hand side the dates of the month; alongside each date is inserted, in space provided for the purpose, a short note of the returns, statistics, reports, or other matters which have to be received from the office departmental chiefs, or which have to be submitted by the office manager to the general manager, board of directors, or others. There is sometimes a sliding attachment which may be moved up or down. This attachment has a flat surface, and on being moved downwards each day indicates to the office manager at a glance the part of the chart referring to the particular date. He is thus able to keep in touch with important matters of a recurring nature, which demand his personal attention or inspection without taxing his memory unnecessarily.

There are many other points of organisation all of which are intensely interesting, but they would occupy weeks to discuss, and we must leave them untouched. I hope, however, that the matters which I

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have mentioned will indicate the need for planning work carefully. No detail is too small to be ignored.

The first necessity is accommodation and equipment; the second, the proper arrangement of work under the departmental system; but most important of all is the selection of staff.

The office can be compared to a battleship with the commander in charge, and all the men under him occupying their proper places, always ready, always alert, and always watchful of the company's interests, and always loyal. Disloyalty in a member of the staff is the unforgiveable sin; the executive must feel that he is surrounded by willing, faithful workers. He must, however, show the staff that he is sincerely interested in their welfare, and for this reason I believe in welfare work, social clubs, sports clubs, educational work, and recreation. Regular staff delegate conferences will also achieve much.

Finally, I would like to say that, as the office manager of a large concern occupies a position of much responsibility and influence, he must, therefore, in addition to efficiency and breadth of vision, be a man with lofty ideals and one to whom his subordinates can look up to with sincere respect because of his strict integrity of character.

“Dishonouring” a Cheque.

An instance recently occurred which emphasised the necessity of care in the use of words when referring to any matter which may affect a person's credit. A bank presented on behalf of a customer a cheque drawn upon another bank which returned it with the answer “words and figures differ.” The collecting bank returned it to their customer with a written advice that the cheque had been “dishonoured” with the answer given. The customer passed on the message to the drawer, who threatened the collecting bank with an action for libel.

It should be remembered that whatever may be the legal meaning of the term “dishonour” as applied to a bill or cheque, there is no doubt that in ordinary business language it implies something discreditable, and it should therefore never be used when a bill or cheque is returned for a technical irregularity or when payment is merely delayed for some reason other than want of funds. It is at least doubtful whether a cheque so returned is legally “dishonoured,” for before a cheque can be dishonoured it must be “duly presented,” and due presentation probably means presentation complete and in proper form.—*Institute of Bankers' Journal.*

Capitalisation of Goodwill.

The subjoined article appears in the March issue of the Monthly Journal of the Sheffield Chamber of Commerce.

We should advise our readers to be very chary about advising their clients to issue bonus shares against a writing up of goodwill.

We are of opinion that if the company went into liquidation there is a possibility that the holders might be called upon to pay for the shares in cash, it being held that there was not good consideration given on issue.

The only way in which such scheme could be carried out without risk seems to be to float a new company, viz. to sell the assets, including the goodwill, in consideration of shares.—ED. A.J.

For some time past a great many companies, both public and private, have been increasing their capital by capitalising their reserve funds by the machinery of issuing to their members bonus shares in satisfaction of a bonus declared out of such reserve funds; and in many cases a company's reserve fund has become capable of being so dealt with by having credited to it the increased value of the company's capital assets.

Though it is often expedient for a company to invest its reserve fund in marketable securities so as to have a cash reserve speedily available in case of necessity, yet directors not infrequently invest their reserve funds in their own company's business—in the company's land, buildings, machinery and the like. It follows that when the value of these reserve fund investments, whether they be securities or land and buildings, increases, so also does the reserve fund. And similarly an increase in value of the company's land, buildings, machinery, &c., not representing the reserve fund, can nevertheless be credited to the reserve fund, the land, or buildings or machinery being written up in the Balance Sheet and the reserve fund increased *pro tanto*.

An interesting question arises, however, as to whether an increased value in the goodwill of a company's business can be dealt with in the same manner, that is, whether a company can issue bonus shares in satisfaction of a distribution of the reserve fund made up wholly or in part by an increased value of the goodwill. In effect, can a company capitalise the increased value of its goodwill?

Before considering this, we must know exactly what we mean by "goodwill." The term is not an easy one to define accurately, as the nature of goodwill varies with the nature of the business to which it is attached. Lord Macnaughton called goodwill "the attractive force which brings in

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custom," and, generally speaking, goodwill may be said to consist of every advantage in carrying on a business, whether derived from its premises, locality, name, patent rights, the personality of its managers, or from any other benefit of a like nature. The value of a goodwill depends almost entirely on the profits and the expectation of future profits of the business to which it is attached, and not on the amount at which it may be stated in the Balance Sheet, which is seldom a criterion of its true value, and is not an asset upon which a banker would be likely to make advances.

Now, if owing to an addition to or an increase of such advantages and benefits a company's profits and the prospect of future profits have become greater, every one will admit that the company's goodwill has similarly risen in value. Why then should it not be written up on the assets side of the Balance Sheet, and the reserve fund on the opposite side increased accordingly, and why should not such increase in the reserve fund be as capable of capitalisation as an increase arising from other sources? The effect of such capitalisation on the Balance Sheet would merely be to decrease the amount of reserve fund, and to increase correspondingly the amount of issued capital, and thus tend to make the value of the issued capital approximate more nearly to its nominal value than was the case before the capitalisation took place.

There appears to be no judicial authority on the point, though the converse case has been before the Court. In *Re Barrow Hematite Steel Company* (Law Reports, 1900, 2 Chancery) the late Master of the Rolls, Lord Justice (then Mr. Justice) Cozens Hardy laid down the principle that, in ascertaining the available assets of a company for the purpose of a reduction of capital, the value of the goodwill must be taken into account.

It would seem by analogy, therefore, that, provided a fair value be placed upon it, there is no reason why goodwill should not also be available for the purpose of an increase of capital. It is likely, however, that, until the point has been actually decided by the Court, lawyers and accountants will show a certain hesitancy in advising their clients to capitalise goodwill.

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A Company Secretary's Duties—I.

By W. H. Fox.

(Author of "The Company Secretary")

This article is the first of a series dealing with the ordinary duties of a Secretary, specially written for the "Accountants' Journal" by an accountant of great experience in this work. Each article will be complete in itself and the series will form a noteworthy addition to the literature of the subject.

I.—Formation and Registration of Company.

The following series of articles dealing with the duties of a company secretary it is proposed to keep, as far as possible, to the order in which various matters may engage his attention. The matter has been divided under eight heads, as follows :—(1) Formation and registration of company ; (2) proceedings of directors—board minutes and general meeting minutes ; (3) share register, share certificates and transfer, share warrants to bearer, and dividends ; (4) debenture register, transfer register of mortgages, debenture interest ; (5) books of account ; (6) office books ; (7) notices by advertisement, stamp duties, and Stock Exchange quotation ; (8) voluntary liquidation and reconstruction.

It is assumed for the purpose of the examples given hereafter that a company is being formed to acquire an existing business, as the steps to be taken are somewhat more elaborate than in the case where no contracts are entered into for the purchase of existing undertakings.

The tendency of the present day secretary is rather to spend too much time in dealing with purely legal questions, but it is advisable that any doubtful points of law should be dealt with by the company's legal adviser. The secretary should have all his time occupied in the organisation of his office, in order that the necessary work may be carried out with as little friction as possible, and with the least possible waste of time. The Companies (Consolidation) Act of 1908 should be his constant study so far as administrative procedure is dealt with, whilst the legal refinements of the cases in which companies which have had their affairs ventilated in the Law Courts may be left for subsequent study.

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Whilst the legal work in connection with the constitution of the company is being carried out by the company's solicitors, the secretary will make himself acquainted, as far as possible, with the memorandum and articles of association and the other documents, and especially with the agreement providing for the purchase of the business to be acquired. His first secretarial duties would consist in attending meetings of the intending directors prior to the registration of the company, at which also the solicitors will be present and at which all the documents will be carefully considered. This will apply especially to the preparation and completion of the prospectus, assuming that the company is about to appeal to the public for capital.

One may pause here to explain that under the Companies Act of 1908 the four different classes of companies may be registered, namely (1) Unlimited Companies, (2) Public Companies issuing prospectus, (3) Public Companies not issuing prospectus, and (4) Private Companies. These are all registered at Somerset House, Strand, London, under the Companies Acts, 1908 to 1917.

(1) *The Unlimited Company* may be practically dismissed from our consideration, as, beyond a few private banks which have been registered in this manner, there are very few companies now carrying unlimited liability on their shares. This means that the holder of even one share is liable to pay up to the whole extent of his property in the event of the company going into liquidation, and it is natural that shareholders should be desirous of avoiding any such contingency.

(2) *Public Companies issuing Prospectus.*—The following documents will be necessary for registration under this heading, namely, Memorandum of Association, Special Articles of Association (unless Table A under the Act of 1908 is adopted as the company's articles), notice of situation of registered office, statement of nominal capital, declaration by solicitors, director, or secretary, of compliance with the requirements of the Act prior to registration, list of persons who have consented to be directors, consents to act as directors, contracts by directors to take share qualification, and complete form of prospectus duly dated and signed individually by the proposed directors. Subsequently to the issue of the prospectus, a declaration of compliance with the terms of Section 87 of the Act must be made regarding the allotment of capital, &c., and the Registrar will then issue a certificate entitling the company to commence business. For the purpose of preliminary meetings, the secretary must prepare full agenda under the advice of the solicitors,—if thought necessary,—and the best form in which this agenda should be prepared is that of putting the business to be dealt with in the form of minutes. The chairman will then alter these draft minutes in accordance with the decisions of the meeting, and there is less likelihood of any misunderstanding arising as to the intentions of the board if the work is carried out on these lines.

These minutes, prior to the registration of the company, are quite unofficial, but are useful for reference as to what has been decided by the proposed board. The work which the secretary will be specially

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responsible for is the reading over of the prospectus, the noting of any alteration in the same, and the sending on to printers for fresh proofs. These fresh proofs should always be numbered consecutively so that no mistake may be made in dealing with them. The responsibility of thus dealing with the alterations in the prospectus may not seem very onerous, but the difficulty will vary with the possibility of deciphering the writing of the lawyer who is engaged in the work of formation. The bad writing of solicitors is notorious, but perhaps it was equalled or even excelled by that of the barrister who confessed in Court, in consequence of some misunderstanding, that he used three kinds of handwriting—the first kind he could read and his clerk could not, the second kind his clerk could read and he could not, and the third kind neither he nor his clerk could decipher.

These difficulties in connection with the prospectus having however been overcome and the document being duly filed with the Registrar of Joint Stock Companies in conjunction with the other necessary documents, the next duties of the secretary will consist in the preparation of the draft minutes for the first regular board meeting. This must be held as soon as possible after the date of registration, and the draft minutes will form a useful agenda sheet. A copy of the agenda should be sent to each director and the solicitors with the notice of meeting. A considerable amount of time may be wasted at a meeting in useless discussion if those present have no particulars placed before them in advance of the business proposed to be discussed.

It is assumed in the present case that the advertising of the prospectus is paid for by the promoter, and the issuing of the agreed number is arranged by him with one of the usual agencies which make a speciality of this class of work.

In a subsequent article full details as to the minutes of the board and of general meetings are discussed, but meanwhile the preliminary meetings of the directors, which specially apply to the formation period, must be dealt with.

The principal points which will arise and which will have to be dealt with at the first meeting of directors are as follows :—The reporting by the solicitors of the registration of the company and the production of the certificate of incorporation (No.). Further, the election by the signatories of the directors, assuming the latter are not mentioned in the articles of association. The reporting that a notice of the registered office had been duly filed at Somerset House and that a seal had been obtained for the company. Resolutions appointing the chairman, settling a quorum, appointing bankers (most of whom now have their own special form of resolution, which should be incorporated in the company's minutes book), the appointing of solicitors, brokers, auditors, secretary, and manager. A resolution should be passed specifying the officials appointed for the purpose of witnessing the sealing of documents with the company's seal. The prospectus should be finally passed and the agreements with the vendor and promoter be executed. If a provisional purchase agreement has been entered

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into prior to the registration of the company (the secretary often in such cases acting as trustee) this must be confirmed by a short contract endorsed on the original document, termed a "novation agreement."

Instructions will have to be given to the secretary to obtain the necessary books of account, allotment letters, notepaper, &c.

It is desirable that all minutes should be numbered consecutively for the purpose of reference and that an index in the minute book should be carefully made under the headings of the various subjects and kept regularly up to date after the minutes have been signed by the chairman. All minutes must begin with the date of the holding and the consecutive number of the board meeting and the names of the directors present; also the names of any officials of the company who may be in attendance.

It may here be observed that although all the above points have been settled beforehand at the preliminary meetings, no resolutions passed prior to the date of the company's registration can be legally effective, and, therefore, a full record of all necessary appointments, &c., must be preserved.

As regards the form of the board minutes, it is not necessary or desirable to place on record in the board minutes the names of the directors proposing and seconding the resolutions. The minutes should begin with the phrase "Resolved that—" or "Reported that—," or in the case of personal directions being given to the secretary or other official, "The secretary was directed to carry out certain instructions relative to the work of his department."

The next serious matter to engage the attention of the secretary is the work of allotment of shares. This in the case of a heavy application list is a very severe test of the capability of the secretary and his staff. It must also be borne in mind that the allotment letter is the acceptance of the offer by the subscriber to take shares and thus completes the contract between the company and the shareholder. The posting of the allotment letter must be duly noted at the time by the secretary, so that afterwards, if need be, as in the case of an action for the recovery of calls being taken against any shareholder, proper evidence of posting can be produced.

All the application forms received by the bankers will be obtained, together with the pass book. The application money entries will be numbered consecutively in the pass book in red ink and the same numbers put upon the actual forms of application. If the applications are numerous, they should then be sorted into alphabetical order and entered on separate sheets under the respective initial letters of the applicants' names. In order to deal with a heavy application list the sheets can be kept loose until the whole allotment is disposed of and then bound up in book form, available for future reference.

It is customary now for a note to be placed on the application form to the effect that no receipt will be given by the bankers, but that the

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applicant will receive from the company by way of acknowledgment either an allotment letter or a note returning the application money. This plan is naturally approved by the bankers, who are thus saved the work of preparing and sending off a receipt for each application, and if the allotment work is taken promptly in hand there can be only a short period of time elapsing before the subscribers obtain receipt for their application money.

When the issue is over-subscribed, and the application list is a very heavy one, it will be convenient to further divide the forms of subscription which are under different initial letters into subdivisions of applicants for similar numbers of shares. This will facilitate the fair apportionment of the shares available for allotment over as large a body of shareholders as possible. Thus all applicants under 100 might be allotted in full; from 100 to 500, say to the extent of 75 per cent.; from 500 to 1,000 to the extent of 50 per cent.; and above 1,000 to the extent of 25 per cent. These rates are merely suggested by way of illustration. It is always, of course, desirable to obtain a large number of members, as this adds to the financial strength of the company. The percentages mentioned would not be rigidly adhered to, in order that individual holdings might, as far as possible, be in round numbers, and the general ratio must vary in accordance with the total number of shares offered and the total number of shares subscribed for.

Probably the most important section of the Companies Act, 1908, is No. 81, which contains the specific requirements as to particulars which must be stated by the company in any prospectus issued. They are shortly as follows:—(a) Memorandum of association, (b) directors' qualification, (c) names and addresses and descriptions of directors, (d) the minimum subscription on which directors may proceed to allotment and particulars of previous allotments, (e) particulars of shares or debentures allotted fully paid within the two years previous, (f) names and addresses of the vendors of any property being acquired by the company to be paid for out of the issue, (g) the amount payable for any such foregoing property and any amount payable for goodwill, (h) the amount payable or paid during the previous two years as commission on placing shares or debentures, (i) the amount of preliminary expenses estimated or actual, (j) the amount payable to any promoter within the two previous years, (k) the dates and parties to every material contract—outside ordinary business contracts—made within the previous two years (l) the names and addresses of the auditors, (m) particulars of any interest a director may have in the promotion of the company or in any property proposed to be acquired, (n) particulars of rights at voting at general meetings conferred by different classes of shares.

Following the above provisions (a) to (n) in this Section 81 are certain definitions and modifications, the principal of which are the avoidance of any condition requiring an applicant to waive compliance with the provisions of the section—the contents of the memorandum of association need not be specified in any public advertisement—a

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director shall not incur any liability in consequence of a mistake made in good faith, or if he can prove ignorance—the provisions of the section shall not apply to any circular issued to existing share or debenture-holders of a company—also where the company is entitled to commence business more than a year before the date of the issue of the prospectus it will not be necessary to give the particulars of the directors or their interest in the formation or the qualification or the amount of the preliminary expenses.

Although Section 80 provides for a fine of £5 a day for not filing a prospectus, it is interesting to observe that Section 81—which is summarised above—occupying three and a half pages of the official copy of the Act, and providing in the most minutest detail what particulars must appear in the prospectus, for the information of intending subscribers and for the general protection of the public, there is no fine or penalty attached to the omission of any or all of the particulars specified. The directors of a company would therefore appear to suffer no harm if they decided to ignore the provisions of the section, notwithstanding a final saving clause is to the effect that “nothing in the section shall limit or diminish any liability which any person **may** incur under the general law or this Act apart from this section.”

Lengthy provisions appear in Section 84 of the Act, as to the liability of directors and others for untrue statements in the prospectus, but a share or debenture holder who may be aggrieved must bring his action in the Courts to substantiate his claim in order to obtain redress.

From the foregoing particulars it will be realised how important a part the prospectus forms in connection with the formation and registration of the company. The statements therein are the basis of the contract between the company and the subscribers of the capital, and therefore the details of the document are such that the secretary must make himself well acquainted with, and be prepared to offer his critical opinion upon, subject always to the advice of the company's solicitors.

A company which issues a prospectus may not commence business until a statutory declaration by the secretary or by a director has been filed with the Registrar of Joint Stock Companies, to the effect that (a) shares to the extent of the minimum subscription have been allotted for cash and (b) that every director has paid on his shares the relative application and allotment money. On the filing of this statutory declaration the Registrar shall certify that the company is entitled to commence business.

The secretary should be careful to bear in mind that in accordance with the terms of Section 87 (5) if any public company carries on business or exercises borrowing powers before having its certificate entitling it to do so, every person who is responsible for so doing is liable to a fine of £50 a day, without prejudice to any other liability.

(3) *Public Companies not issuing Prospectus.*—In accordance with the terms of Section 82 of the 1908 Act, a company that does not issue a prospectus on or with reference to its formation shall not allot any of its shares or debentures until a “statement in lieu of prospectus” has been filed with the Registrar. This statement must be signed by every director or proposed director of the company in the form set out

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in the Second Schedule of the Act. The information is as follows, viz. —(1) Nominal capital of company, (2) particulars of shares, (3) names, &c., of directors, (4) amount of minimum subscription, (5) consideration for shares or debentures to be issued fully paid, (6) names, &c., of vendors and consideration receivable by each, (7) particulars of payments to vendors and amount for goodwill (if any), (8) particulars of commission payable for placing capital, (9) estimated amount of preliminary expenses, (10) amount payable to any promoter, (11) dates and particulars of and parties to any material contract within the previous two years, (12) time and place at which contracts can be inspected, (13) names and addresses of the auditors (if any), (14) full particulars of any interest the directors may have in the promotion of the company or in any property proposed to be acquired, and (15) whether the articles contain any provisions precluding share or debenture holders from inspecting the Balance Sheets or the auditor's reports.

It will be noticed that these provisions are to a great extent the same as those which have to be incorporated in the prospectus where a company makes a public issue, and the work of the secretary in this case is practically the same. The allotment work need not be again explained, the only difference being that a private issue requires far less strenuous labour on behalf of the secretary and his staff than in a case where the applications are received from the public at large and probably have to be dealt with in a few days when the list is closed on a fixed date instead of being spread over a much longer period of time and the work can be carried out at leisure.

(4) *Private Companies.*—This term is specially used in the 1908 Act, and the following forms only are necessary for registration purposes :—(1) Memorandum of Association, (2) Articles of Association, (3) Copy of Register of Directors or Managers, (4) Notice of situation of registered office, (5) Statement of nominal capital, (6) Declaration by a director, secretary, or solicitor, that the requirements of the Companies Acts, 1908 to 1917, have been complied with.

There need be only two signatures to the Memorandum of Association of a private company, instead of seven. It is necessary to have special articles of association in which provisions are contained prohibiting any public issue of shares or debentures, or having more than 50 members on its register, excluding present and past employees, and forbidding the issue of share warrants.

A private company is relieved from the responsibility of giving a copy of its Balance Sheet on its annual return or of filing a statement in lieu of prospectus.

Whilst, however, there may be advantages in the case of a small company which desires to keep its affairs from the public eye, there is one very serious objection from the investor's point of view, namely, that the directors have the absolute power of refusing to register any transfer deed of shares or debentures submitted to them. The directors thus have absolute power of control invested in them, and cases have been known where this power has been used to the disadvantage of the investor.

The next article will deal with the subject of the proceedings of directors, including details relating to board and general meeting minutes.

The Fundamentals of Accountancy—II.

By **Lawrence R. Dicksee, M.Com., F.C.A.**

(Professor of Accounting and Business Organisation
in the University of London.)

The Student will never be able to grasp the true significance of an account until he is able unerringly to describe who is the person or group of persons for whom that account stands. He must learn to acquire the habit of personifying accounts. Professor Dicksee, who gives this valuable advice to Students, explains in this article the settlement of accounts, the meaning of Dr. and Cr., the balancing of accounts and what the balance means.

III.—“ The Accountant.”

The man in charge of the accounts of a business house—who, for want of a better term, we will hereafter speak of as “ the accountant ”—in pursuit of his ideal of impartial fairness to all parties concerned, will require to keep an account with every individual or body that may have dealings with his business house. Whenever any useful purpose is to be served by so doing he may raise two or more different accounts with the same individual or body (hereafter spoken of as “ party ”), and this will be very necessary wherever there is occasion to distinguish between one class of transaction and another. For example, the same party may have transactions upon behalf of the business house with both money and bills of exchange ; it would be inconvenient, and it would therefore be bad accounting, to keep both classes of transactions in the same account. Accordingly, separate accounts are kept between that party and the business house, (1) for money transactions, (2) for transactions in bills of exchange, and so on.

IV.—The Settlement of Accounts.

In business everything has to be accounted for in one way or another, and the vast majority of transactions are accounted for by subsequent actual payment. Accordingly, each separate account that the accountant has occasion to keep will sooner or later be required to record transactions in both directions : transactions of wealth (i.e.

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money, goods, or services) dispatched or rendered by the business house, and also transactions in the nature of wealth, money, goods, or services received by the business house. Sometimes the transactions outwards will precede the transactions inwards, and sometimes it will be the other way about. But sooner or later there will be transactions in both directions to be recorded in every account.

V.—Debit and Credit.

To speak of transactions as being either “outwards” or “inwards” at once suggests the possibility of distinguishing between them in the matter of direction by the employment of the mathematical signs plus (+) and minus (−), the plus indicating wealth imparted by the business house and, therefore, received by the party indicated by the particular account in question, and the minus conversely representing wealth imparted by the party indicated by the account in question and received, either directly or indirectly, by the business house. The mathematical terms plus and minus are never so used for purposes of accounting, but the student who is well acquainted with their mathematical significance will undoubtedly find it most helpful to endeavour to think of all kinds of business transactions from this point of view. In this country it is customary to speak of an account (i.e. the party for whom one of the many accounts kept by the accountant stands) as being debited in respect of what it has received, and credited in respect of what it has parted with. It is, however, not invariably the case that the “accounting party”—i.e. the party for whom the account stands—is a debtor because he has received the benefit of a particular transaction or that he is a creditor for the opposite reason. In common parlance, these terms “debtor” (Dr.) and “creditor” (Cr.) are employed not as regards each separate event but as summing up so to speak the cumulative effect of all the events that have so far occurred. For example, if A. has received goods to the value of £20, and subsequently pays £10 on account, the cumulative effect, or net result, is that he still owes £10 and is, accordingly, a debtor in that sum. To the beginner at least it seems a little inconsistent, and not a little confusing, to speak of A. as being “debtor” in respect of the first transaction of £20, and as “creditor” in respect of the second transaction of £10. To those who experience a difficulty at this stage (and by no means everyone will experience any real difficulty here) the alternative terms that still survive in Scotland, “charge” and “discharge,” may prove very helpful. Everyone can realise the fairness of “charging” an account with what it has received, and of “discharging” an account in respect of what it has parted

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with. Accordingly, it is convenient to remember these terms "charge" and "discharge" as alternatives for the more usual terms debit (Dr.) and credit (Cr.). To charge an account is precisely the same thing as debiting that account; to credit an account is precisely the same thing as discharging it to the extent of the amount so credited.

The young student sometimes finds considerable difficulty in appreciating the need for—still more the reasonableness of—a system under which the accountant records each transaction as he deals with it entirely upon its own merits, and without attempting as he goes along to consider the cumulative effect of the various transactions which he is recording. A very little practical observation will, however, show him that no other system of accounting would be practicable. As a matter of fact, in very many cases—perhaps more often than not—the accountant is actually ignorant of some, or perhaps all, of the prior transactions at the time he is called upon to record the transaction immediately before him. If he could record nothing without investigating into prior conditions, there would in the nature of things be great delay and considerable uncertainty.

VI.—Balancing Accounts.

The method employed in practice is to divide each separate account into two parts vertically, called respectively the debit and credit sides of the account. Whenever the accountant ascertains that the party represented by a particular account has received the benefit of a transaction, he debits that account with the value of the transaction. Whenever he ascertains that the party represented by a particular account has parted with the benefit of a transaction he credits that account with the value thereof. In the discharge of this duty it is quite unnecessary for him to think of, or to cumber his mind with, more than one transaction at a time; but as a result he will be building up records that are true records of things that have happened upon the accounts to which they relate, indicating not merely their values but also their direction, whether inwards or outwards. Accordingly, the state of any one account, i.e. the relation of the party represented by that account to the business house, can at any time be ascertained by "striking a balance" of the account, i.e. by ascertaining the aggregate amount debited and the aggregate amount credited thereto, and upon which side the balance (i.e. the weight) of the total transactions lies. If the debit entries total to more than the credit entries, the balance on the account is a debit balance, representing that the party, whose account it is, is accountable to the business

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house to that extent for value received, and that matters will not be settled between the parties until the business house has received a corresponding sum in settlement. Conversely, if the credit entries are in excess, the account shows a credit balance to the extent of such excess and will not be settled until the party represented by the accounts has received payment of a corresponding sum from the business house.

VII.—What the Balance of an Account Means.

Even at this early stage it seems very desirable to emphasise the fact that, however accounts may be headed by the accountant for purposes of convenience, and for the purpose of distinguishing between several different accounts that he may have found it convenient to open with the same party, every account records the position as between the accountant's business house and some human being or group of human beings. Only human beings can be called to account, and only human beings can enforce legal rights. In the nature of things it would be childish to call some chattel or some abstract idea to account, or to expect a chattel or an abstract idea to be capable of enforcing its rights against a business house. The student will never be able to grasp the true significance of a single account until he is able unerringly to describe who is the person, or what is the group of persons, for whom that account stands. That is to say, he must learn from the very outset to acquire the habit of personifying accounts as he goes along.

The Principles of Costing—II.

By A. Cathles, O.B.E., C.A.

The recording of wages—the fundamental element of every system of costing—is explained by Mr. Cathles this month. The organisation of a modern factory in regard to the engagement of labour, different methods of time recording, and the compilation of the pay roll is clearly set out.

It will be remembered that last month there was discussed generally the necessity for an efficient costing system in every up-to-date manufacturing business, and that the three different methods by which the costing statistics are gathered together to produce the final Cost Account were mentioned. There was also explained the first step towards obtaining the desired result, namely, the placing of the Works' Order on the shop in which the work is to be performed.

Costing is only one part of a factory efficiency system, and it is impossible to take it out of its natural surroundings and present it by itself. It is very closely related to—in fact it is based upon—such other details as the financial accounts of the factory, the records of the engagement, employment, and discharge of workers, and the departmental records of purchasing, planning, and progress; and it is, therefore, necessary to touch upon these matters in order that the references that will be made thereto as costing proper is discussed may be understood and appreciated.

Wages.

So far as this element of cost is concerned the object of a costing system is to ascertain the portion of each worker's wages that has been earned on each of the works' or standing orders upon which he has been employed. In a small business, where one man can adequately supervise all the work that is being done, this may seem a simple matter, but as a business increases in size and the number of workers grows, so the difficulty of determining how the hours worked by the employees are to be charged to the various jobs becomes greater, and the need for some method of recording how these hours are spent comes to be recognised. Such record can be made only in the shops or departments where the workers are actually employed, but before considering the procedure to be adopted to obtain this record it will

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be advisable to examine the wages question from the very beginning, namely, the engagement of the worker, and to follow him through the various records that are made as he is taken on, goes to the shop, commences work, &c.

Engagement of Labour.

The foreman in a shop finds that, owing to a man or men having left, or owing to the increasing volume of work, he is in need of extra hands. It is then his duty to report the fact to the party responsible for finding the labour force. In a small factory that party would be the Works' Manager—in a large factory the report would be made to the Labour Section. The old-fashioned method would be for the foreman to make the report verbally, and one can see how trouble is likely to arise through the request being forgotten or wrongly remembered and either no workers supplied to the foreman or the wrong grade. Up-to-date methods call for the request to be made in writing. A special form is kept for the purpose, and it provides for (1) the shop or department requiring the workers, (2) the number and grades of the workers wanted, (3) the reason for the addition to the labour force, (4) the date upon which the new men should start, and (5) the name of the party to whom they should be sent. This form is filled up by the foreman in duplicate, the copy being retained by him for reference, and the original being sent to the Works' Manager. It is then the duty of the Works' Manager to satisfy himself that the request is reasonable (i.e. that the additional workers are necessary), or, if unreasonable, to take the matter up with the foreman. If he is satisfied that the workers are required he signs the form signifying his approval and passes it on to the Labour Section for action, or if there is no Labour Section he will see that the matter is attended to by his own staff. When prospective workers have been interviewed the selected candidates are required to fill up application forms, giving all the usual information as to name, address, age, married or single, grade, service with the colours, previous employers, insurance society, &c. From the information so obtained the worker's History Card is written up. This card, besides showing all the particulars on the application form, also provides for the worker's number, the noting of changes of address, changes in the rate of pay, location in the factory, promotion, dates of commencing and leaving, and reason for leaving. These cards are filed in alphabetical order, one section being kept for present and one for past employees, and the value of such a record is apparent. On engagement each worker is given a number, and it is, therefore, also necessary for the Labour Section to keep an

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Employees' Register in order that the vacant numbers may be readily ascertained. This register need only show the numbers 1, 2, 3, &c., and against each the name of the worker to whom it has been allotted. When a worker leaves his name is deleted and the number becomes vacant and, therefore, available for a new employee. In order, however, that no confusion may arise it is advisable that numbers be left vacant for at least three weeks. When a new hand is taken on he deposits his National Insurance Card and book, and is given a slip addressed in the first place to the timekeeper and, secondly, to the foreman to whom he has to report. The timekeeper instructs the man in the method of timing into and out of the factory daily, times him on and directs him to the foreman, who sends the slip signed and timed to the Wages Section, where it is checked against the intimation already received from the Labour Section, which will have advised the man's name, number, grade, and rate of pay.

Methods of Time Recording.

All wages, except piece-work wages, are payable in respect of the time that the workers spend in the factory, and it is necessary, therefore, to have some method of recording the times of arrival and departure of each worker. There are several methods of doing this, but perhaps the two best known are (1) by means of numbered metal discs, and (2) by time recording clocks. In the first case the metal discs, each stamped with a number to correspond with the number of a worker, are hung on consecutively numbered hooks on a board on the outside wall of the timekeeper's office. On arrival, each worker takes from the board the disc bearing his number and drops it through a slot into a box inside the office, the box with the discs in it being removed at stated intervals and an empty box substituted in which the discs of later arrivals will be received. Each box should be clearly lettered to indicate the time at which the workers represented by the discs dropped into it will be recorded as having arrived. (The record is made by the timekeeper on a sheet, which shows the number of each worker, the times of his arrival and departure each day, and the number of hours he has worked.) When the arrivals have all been recorded the discs are again hung on the board and a similar procedure is followed on the departure of the workers. The procedure where the most up-to-date class of time-recording clock is in use is for each worker to take from the rack where the cards are filed numerically, the card bearing his own number and name, to insert same in the slot in the clock case, and to depress a lever, thereby stamping on his card the time of his arrival or departure as shown by the clock. The card is

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thereafter placed by the worker in the rack on the other side of the clock from the rack from which it was taken. The rack next to the factory entrance is called the " Out " rack and the other the " In " rack, and the cards in them represent the workers that are out of, or in, the factory respectively. At the end of each day it is the duty of the timekeeping staff to calculate and insert on each card the number of hours worked.

Whatever the method of timing in and out, the passage before the disc board or clock should be so arranged that after passing in it is not possible for a worker to pass out again without a definite authority until the proper time. Also a timekeeper will require to be on duty to supervise the timing in order that men may be prevented from attempting to do their pal a good turn when he is to be late or absent by depositing his disc or clocking his card as well as their own.

From the timekeeper's sheet or from the clock cards the total number of hours worked by each worker during the week are ascertained. The Wages Section then rates these hours by aid of their Rate Book. (This book is kept up-to-date from advices which are promptly received from the Labour Section of all new hands taken on, alterations in rates of pay, workers leaving, &c.) Thereafter, the earnings of each man are calculated, the pay-roll compiled, the net wages are made up (in tins, envelopes, &c.), and the cash handed to the workers.

Mention has been made of the Clock Card and Pay-roll, and as these records are not always familiar to the accounting student it may be well to describe them in some detail.

Clock Card.

This card, which measures about $7\frac{1}{2}$ inches by $3\frac{1}{4}$ inches, is ruled on the one side to show (1) the day of the week, (2) time of arrival in morning, (3) time of departure at dinner time, (4) time of return after dinner, (5) time of departure at end of day, (6) ordinary time worked, and (7) overtime worked. On the other side space is provided at the top for the worker's number and name, and the date upon which the week ends, and below the card is ruled to show the total number of hours worked, the hourly rate of pay, and the consequent week's wage. Thereafter follow any bonus earned, the gross earnings (wages plus bonus), deductions (hospital, war savings, national insurance, &c.), and the resultant net amount payable to the worker. At the bottom is space for the worker's signature. As has been stated, the hours worked are extended on the card daily by the time-keeping staff, which, at the end of the week, also inserts the total hours. The

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Wages Section completes the summary of wages on the back of the card and therefrom compiles the pay-roll. On the morning of pay day the priced Clock Cards are inserted in the card racks beside the current cards and are abstracted by the workers as they are timing on. Thus each worker is in possession of a statement of the amount that will be paid to him later in the day and is able to check same. If the amount is correct the card is then signed by the worker and is presented by him at the pay box, and, in exchange, he receives the amount due to him as shown by the card.

Pay-Roll.

As mentioned above, the pay-roll (or, as it is more commonly called in this country, the "wages sheet") is compiled where time-recording clocks are in use, from the summary of wages on the clock cards. It should be ruled to provide for the workers' numbers, wages, bonus, total, deductions (one column for each class), net amount payable, and employer's insurance contributions. The copying of all that information by hand is a laborious process, and the additions of all the columns also take considerable time. There are, however, now on the market several machines combining the functions of typing and adding, by the use of which a very great deal of time is saved and greater accuracy ensured. Loose sheets are recommended for the pay-roll and are, in fact, necessary for most of the machines, and the total of each sheet is inserted on a summary sheet (also by aid of the machine), and the totals of the wages, bonus, deductions, &c., for the week or other pay period obtained. If the cross cast of the totals of the summary is correct it is reasonable to assume that the additions and subtractions on the Clock Cards have been correctly made and that the copying of the details from the cards to the pay-roll is also accurate. The great benefit of a loose-leaf pay-roll arises from the fact that the sheets can be distributed amongst the cashier's staff for the making-up of the pay, thus enabling this operation to be performed with greater dispatch than is possible where the pay-roll is in book form. On the pay-roll the workers will be shown in numerical order and pay stations should be so arranged that each will pay out to the workers shown on a complete section of the pay-roll. That section should be beside the pay clerk as he is paying out in order that he may be able to refer to it in any case of dispute.

Shop Record of Time Worked.

All wage records up to this point are such as must be kept even in factories where no costing is attempted, and it will have been observed

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that none of them provides any information as to the jobs upon which the workers have been engaged, as none has originated at the place where the men are actually working. Information as to how the workers' time has been spent can only be obtained from the shop or department where the work is performed, and it is therefore necessary that some method of collecting it be devised. That it must be a return of some description from a responsible party is evident, but just what form it will take depends to a great extent upon the conditions prevailing in each separate business. In some factories it may be possible to include all the workers in each shop or department in one return ; in others it will be necessary to have a return for each worker. Various designations are applied to this form of return, some calling it Time Sheet, others Work Ticket, others again Operation Card, and so on, but whatever term may be used the form must be filled up in respect of every employee whose wages appear on the weekly pay-roll. Some of the workers will be engaged upon production under Works' Orders, and others upon work which is not directly productive, such as power plant and stores staff, transport drivers, timekeepers, general labourers, &c. For each of the latter class a standing order number will be fixed, to which all time worked will be charged. If a factory runs its own repair and maintenance staff, the work of such staff will be done under definite repair orders issued by the maintenance manager under similar regulations as apply to Works' Orders.

Where labour is remunerated upon a time basis, the particulars to be shown on the Time Sheet will be :—

- (1) Worker's Name.
- (2) Worker's Number.
- (3) Date.
- (4) Department or Shop.
- (5) Works' Order, Standing Order, or Repair Order Number.
- (6) Operation Number (if any).
- (7) Description of Work.
- (8) Time spent on job (distinguishing between ordinary time, overtime, and idle time).
- (9) Number of each machine and hours for which it has been used.

Where labour is paid on piece-work, or where a premium bonus system is being worked, provision must be made for further information as to output, time allowed, time saved, &c.

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Whether the information is filled in by the workers themselves or by the foremen matters little, but the form must be signed by the party to whom the men specified on it are directly responsible for the work they have done.

It is generally found advisable to have these Time Sheets made up daily to ensure that the information is supplied while the details are still fresh in the minds of the workers and foremen. Weekly sheets are apt to be made up at the end of the week by pure estimate.

When the forms have been duly signed they are sent to the time office, where the number of hours worked by each employee is checked with his hours of attendance as shown by his Clock Card or by the timekeeper's sheet. Where the men are on time work this check is very essential, because wages are based on hours of attendance, and it is necessary to ensure that all time paid for has been worked and is, therefore, caught up in the costs. When such check has been made the forms are passed on to the Wages Office, where the rates of pay are inserted and the earnings of each worker on each job are extended. Thereafter the hours and wages are listed by the Cost Office under the various Works', Standing, and Repair Order numbers, and the total hours and wages applicable to each order number are obtained. These totals are themselves listed and the grand totals of hours worked and wages earned are thereby ascertained. The grand totals should agree with the pay-roll totals, but small differences are bound to arise owing to the incidence of the odd fractions of pennies discarded or made up on the Time Sheet calculations. Such differences must be adjusted in the grand summary before the details of same are posted to the Cost Ledger Accounts.

There has now been ascertained the hours and wages apportionable to each order number, and it only remains to enter same in the cost books. The method of doing this will be explained later, but meantime it may be said that wages earned on Works or Repair Orders are posted to the respective job accounts, and those under Standing Orders to the appropriate Standing Order or Departmental Oncost Accounts.

Pass-out Slips.

Mention was made under time recording that it is necessary to ensure that once workers have timed on it is not possible for them to leave the factory, except at the proper time, without a definite authority. This authority should take the shape of a pass-out slip, issued to the

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man by his foreman and to be given up to the gatekeeper as authority to him to allow the man out. The slip (a copy of which should be sent to the Wages Office) should state whether the man goes out on his own or the firm's business, and, if the former, the gatekeeper should see that the slip bears the timekeeper's initials certifying that the man has been timed out.

Overtime Slips.

All overtime that is worked should be duly sanctioned in advance by an authorised person, and workers should be provided by their foremen with overtime slips, which, handed to the timekeeper, are his authority to permit the men to record overtime. Without some such check some men are liable to work overtime to suit their own convenience when the requirements of the business do not call for it.

Temporary Absences.

Practically every labour force contains some shirkers who would rather loaf than work, and in factories of any size where continuous supervision is not practicable the excessive time spent by such men in answering the calls of nature is worth watching and even worth recording. This record can be conveniently kept by a lavatory attendant, who will note the number and times "in" and "out" of every worker.

Audit Programmes and Procedure—II.

By Andrew Binnie, F.C.A., C.A.

Mr. Binnie gives this month some useful advice on the examination of ledger balances, and incidentally describes a method of accounting that dispenses with the use of a Bought Ledger in cases where creditors are paid monthly.

Examining Ledger Balances.

The taking out of the Ledger balances having been checked and the Trial Balance satisfactorily established, the ground is clear for a closer scrutiny of the balances than is as a rule possible during the more or less mechanical operation of checking, in which, on the sound principle of doing one thing at a time, the mind is concentrated upon proving the arithmetical correctness of the books.

Balances may be classified as follows :—

- (a) Trade Debts owing.
 - (1) Open Accounts.
 - (2) On Bills Receivable.
- (b) Trade Creditors.
 - (1) Open Accounts.
 - (2) Bills Payable.
- (c) Sundry Debtors and Creditors.
- (d) Impersonal and Private Accounts.

As regards (a), see that the debts are trade debts and are good, that they do not include such items as payments for goods bought or samples not to be paid for, payments for services, rent, rates, taxes, law costs, advances to directors, excess drawings by partners, and such-like, as sometimes happens where the bookkeeping is not expert. The most satisfactory trade debtor balance is one which has subsequently been paid, and paid within the prescribed term of credit. Where payments are in arrear further inquiries should be made, and it may be necessary to see the file of correspondence with the debtor. Where payments are irregular further inquiries may also be desirable, for there is in such cases the possibility that the revolving system may be in operation, where receipts from one debtor who has paid are credited to another to cover up arrears which might otherwise lead to awkward inquiries. In the case of debts written off as bad, some evidence is always available, either in the form of correspondence or official

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bankruptcy documents. See that provision is made for trade discounts. Cash discounts depend on the time of payment, and provision is not always made for these discounts. See whether the debtor is also a debtor on bills receivable, and whether his indebtedness is increasing, and, if so, why.

As to bills receivable, the balance of this account should be agreed with a list of bills in hand duly verified by an inspection of the bills, and should also be agreed with the total of the bills not discounted as shown in the Bills Receivable Book, in which particulars are or should be entered as to bills discounted. A list of bills discounted but not matured at the date of the Balance Sheet should be prepared, as there is a contingent liability in respect of these bills until they have run off. Inquiries may be necessary as to the status of the various acceptors. The auditor will also satisfy himself that the bills have all been posted to the credit of the acceptors.

As regards (b), see that the trade creditors are all trade creditors and do not include such items as Rents Payable, Interest Payable, Rates and Taxes, Directors' Fees, Suspense Accounts, or Impersonal Accounts. The balances due to trade creditors may be verified by a reference to the monthly invoices or statements, and the delivery of the goods referred to in the invoices may even be checked by a reference to Stock or Store Ledgers. In all properly organised businesses both the invoice and the monthly statement bear evidence on the face of them that they have been checked as to delivery of goods, prices, extensions and additions, independently of the cashier. If thought necessary, a certificate may be obtained from a responsible person to the effect that no outstanding amounts have been omitted and that invoices dated forward have been taken into account. The invoices filed subsequent to the date of the accounts may also be examined to see that they do not relate back to the period covered by the accounts under audit. In some cases the invoices are compared with the Invoice Day Book, the entries in which are afterwards checked to the Bought Ledgers, but if the creditors' statements are compared with the balances, the comparison seems to be redundant unless for the purpose of checking the allocation of the invoices. The Bills Payable should be agreed with the total of the bills not due at the date of the Balance Sheet extracted from the Bills Payable Book, and a certificate may be obtained from a responsible person that all bills accepted have been entered in the Bills Book. The auditor will also see that the bills have all been posted to the debit of the respective drawers.

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Notes on (a) and (b).

(1) With the average man rapid work is mainly a matter of method and division of labour. For example, it is better to check all the Ledger casts right through and then to check the taking out of the balances. The mind is concentrated on one thing at a time and so works more rapidly. The conventional practice is to bring down all the Ledger balances once, and even twice, a year. Much time, however, could be saved if the debit and credit sides of the Ledger were cast up and the totals entered and ruled up without bringing down the balances in the books at all. The totals should be taken out on columnar paper with four columns, the totals being entered in the first two columns and the balances thrown out into the third and fourth columns. The totals and balances of each sheet being cast and agreed independently, any discrepancy in extending the balances is quickly located. Under this system Ledger Accounts are only squared off when an actual settlement has been made or an agreed balance arrived at. All the information which is available by bringing down the balances is obtained from the sheets, and a considerable amount of time and trouble is therefore avoided both by the bookkeeper and the auditor. The balances should be written up in the Balance Sheet Book, in which the Balance Sheets and accounts are entered year by year.

(2) Where creditors are paid monthly it is often possible to dispense with a Bought Ledger. The Invoice Book is ruled with two columns for the credit items, one for the separate invoice amounts and one in which to extend the total for the month, also with columns for cash and discounts, and a folio column. The cash paid is posted against the total to which it refers and so squares it off. After a month the only balances are those remaining unpaid. Any trifling difference can be carried forward to the next month or written off, as the case may be. This system is in operation in many businesses to-day, and has proved successful. It saves clerical work, saves a Ledger, and also saves the auditor's time. The system is not so convenient in the case of debtors (though it may be applied in some cases), for a trader may pay his own accounts monthly, but he cannot always compel his debtors to do the same. There is little to be gained by Ledgers in which there are credits each month for goods, and corresponding debits for cash paid posted month after month, involving laborious wading through the Ledger to extract the balances. In such cases the system suggested above is undoubtedly of great advantage. The only objection is that the total trade done in the year with any particular creditor is not quickly arrived at, should this information be required.

Income Tax Practice—II.

The working of the income-tax forms such an important part of an accountant's duties that it is essential that students should be acquainted with the fundamental principles of the tax. It is intended in this series of articles, specially written by the Income-tax Expert of "The Accountant," to treat the subject in a manner intelligible to students, and later, to work up to the higher phases of the subject.

Allowances (*continued*).

Life Assurance Premiums.

The allowance for life assurance premiums is restricted to :—

- (a) Insurances on the life of the taxpayer or of his wife.
- (b) Deferred annuities on the life of the taxpayer or of his wife.
- (c) Deductions from salary, *under Act of Parliament*, to secure a deferred annuity to the taxpayer's widow or a provision for his children after his death. This also applies to a *direct* payment made under an Act.

There is thus no allowance for premiums on the life of a taxpayer's child, other than in (c), or of a relative.

The following restrictions apply :—

- (1) The allowance shall not exceed one-sixth of the total income from all sources.
- (2) The allowance shall not be a reduction of total income for abatement and other purposes.
- (3) An individual premium shall not carry allowance exceeding 7 per cent. of the capital sum assured by the policy exclusive of bonus, &c. If one premium is more than the 7 per cent. and another less, no set-off can be allowed.
- (4) The *total* allowance for deferred annuities shall not exceed £100.
- (5) With insurances or deferred annuities commenced *after 22nd June 1916* the allowance is still further restricted :—
 - (a) A maximum rate of allowance of 3s. in the £.
 - (b) Only premiums on policies for securing a *capital sum on death* can be allowed. It is not necessary that the capital sum shall be the sole benefit.

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- (c) No allowance can be made for premiums payable during a period of deferment. If a policy provides that no death benefit shall apply for, say, three years, there is no allowance of the premiums for those years.

The restrictions (b) and (c) do not apply to premiums in connection with :—

- (d) Superannuation or *bona fide* pension scheme for the benefit of employees.
- (e) Policies taken out by teachers pending establishment of a superannuation or pension scheme.

A claim for insurance premiums may be made within three years after the end of a year of assessment.

War insurance premiums are not affected by the restrictions in (1), (3), and (4).

Dependent Relatives.

An allowance may be claimed in respect of a relative of the taxpayer or of his wife, who is physically incapacitated and whose income from all sources does not exceed £25 per annum. The allowance is £25.

Deduction of Tax.

In some cases the tax is not assessed direct on the recipient of the income but on the payer, who deducts the tax when making the payment. The following are instances of "deduction at the source" :—

- (a) Rents from property.
- (b) Dividends on shares.
- (c) Interest on mortgages and other loans.
- (d) Dividends on Government stocks.
- (e) Ground rents.

In the case of (a) the tenant is charged to Schedule A or "property tax," and he keeps back the tax when paying the rent. The owner then keeps back tax when paying mortgage interest or ground rent. Assume e.g. that a house is let by A. to B. for £60 per annum rent, and that A. has a mortgage of £300 at 5 per cent. from C. and pays ground rent of £10 to D. The assessment under Schedule A is assumed as £60 gross and £50 net, the difference being the allowance for repairs. Now B. is charged on £50 at 6s. = £15, and, on paying his rent, he deducts tax of £15, thus actually paying £35 in rent and £15 of the rent in tax. A. thus receives £35 and pays C. £15 interest, less tax at 6s. = £10 10s.

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net, and D. £10 less tax = £7, thus retaining for himself £17 10s. His actual share of the rent is £50 - £15 - £10 = £25, and tax on this at 6s. gives the net figure of £17 10s. Three recipients of income are thus taxed by means of only one assessment.

In the case of dividends on shares, the company has paid tax on its full profits before charging dividends, and it distributes its profits on the basis of its full profits and retains the shareholder's portion of the tax. The *rate* of deduction from dividends is a particularly important point, and the general rule is that deduction should be *at the rates in force during the period in which the profits used to pay the dividends accrued*. The period of accrual of the dividends themselves is thus not relevant, so that arrears of dividends paid out of *current* profits must have tax deducted at *current* rates. Assume e.g. that the rate of tax for 1920-21 was 8s. and that the trading year was to 31st December. An interim dividend paid at 30th June 1920 out of 1920 profits would suffer deduction at $\frac{1}{2}$ of 6s. + $\frac{1}{2}$ of 8s. = 7s. in the £, but, on payment of the final dividend at 31st December 1920, this would have to be adjusted so as to give the correct aggregate deduction for the year to 31st December 1920, which deduction would be at $\frac{1}{4}$ at 6s. + $\frac{3}{4}$ at 8s. = 7s. 6d. in the £, it being noted that the income-tax year is to 5th April, which, in practice, is treated as 31st March. It is better to treat interim dividends at the rate for the trading year, i.e. 7s. 6d. in the above example, when the final dividend would carry deduction at the same rate.

Schedule A.

This schedule covers the profits of an owner from lands and buildings and the basis of assessment is the "*rack rent*," i.e. the full open market rental value, the tenant paying only *tenant's* rates and taxes and the landlord doing repairs. If the property is let at a rack rent on a lease made within the past seven years, that rent becomes the amount of the assessment. When, however, the tenant undertakes e.g. to effect improvements, the rent reserved by the lease is not a rack rent, so that an addition has to be made to such rent to make it equal to a rack rent. If e.g. a tenant with a lease for seven years undertook to add buildings at a cost of £700 in addition to a rent of £100 per annum, the rack rent would be taken as £200, the reserved rent of £100 being reduced by the consideration of the additions.

The rack rent is reduced by an allowance for repairs, which allowance is as follows :—

- (a) For houses and other buildings, one-sixth.
- (b) For land and farm buildings, one-eighth.

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The *actual* repairs, on an average of the five preceding years, may be claimed in the following circumstances :—

- (1) *Metropolitan Police District*.—Annual value not exceeding £70.
- (2) *Scotland*.—Annual value not exceeding £60.
- (3) *Elsewhere*.—Annual value not exceeding £52.

When a claim is made for *actual* repairs, the allowance covers repairs, maintenance, insurance, and management.

Beneficial Occupation.

The tenant is only able to deduct tax on the amount of the *rent* or on the *assessment*, whichever is the lower. If the net assessment exceeds the rent the tenant has to bear the tax on the excess, as he is considered as equivalent to an owner to the extent of the excess, so that if e.g. a tenant rented premises at £50 and the rack rent was £80, the assessment would be £80 less one-sixth = £66 14s., and he could only deduct tax on £50, the balance of £16 14s. being treated as his income, and it would have to be included in his "total income" for arriving at the rate of his liability. It would, therefore, be chargeable at the rate appropriate to him.

In many cases the Schedule A tax is charged at the rate applicable to the owner, but the mortgage interest and ground rent are kept in charge at the highest rate, so that the mortgagee and ground landlord have to be allowed any applicable relief by repayment or by a set off against any other income directly assessable.

Schedule B.

This schedule covers the profits from the *occupation* of land, and it is based on *double* the Schedule A *gross* value, i.e. before deduction of repairs, with some slight exceptions which will be noticed later.

The farmer is, however, entitled to three different modes of assessment, as follows :—

- (a) *Schedule D*.—He may, on a claim before 5th June in the year of assessment, require assessment on the average of the three preceding years under Schedule D.
- (b) If charged under Schedule B he may claim, at the end of the year, adjustment to the actual profits of the year of assessment.
- (c) Whether charged under Schedule D or Schedule B he may, if he makes a loss on the year of assessment, claim to have the assessment reduced by the *amount of the loss*.

It is essential, to a claim under (a), (b), or (c), that proper accounts be produced, although not necessarily elaborate.

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Schedule C.

This schedule, which relates to Government stocks, is worked entirely by deduction at the source and is of no relevant moment to an accountant.

Schedule D.

The main schedule of the income-tax is that which most generally troubles a taxpayer. It applies to :—

- (a) All annual profits of a resident here from any source abroad or here.
- (b) All annual profits of a non-resident arising here.

Case 1 relates to trades and the basis is the average of the preceding years, such years being the usual trading years.

Commencement.

Clearly, a new business cannot be assessed on a three years' average until it has completed three years' trading, so that the following basis applies :—

First year.—Profits of first year.

Second year.—Profits of first year.

Third year.—Average of first and second years.

Fourth year.—Average of first, second, and third years.

If the business does not commence at 5th April, or, say, 25th or 31st March, the first assessment is for a period less than a year and is taken as the proportion of the first year's profits. Assume that a business was commenced on 1st January 1920 and that the profits were as follows :—

Year to 31st December 1920	..	£ 700
" " 1921	..	1,200
" " 1922	..	2,000
" " 1923	..	3,000

The assessments would be :—

1919-20	..	$\frac{1}{4}$ of £ 700 (1920)	£ 175
1920-21	..	.. 700 (1920)	700
1921-22	..	.. 700 (1920)	700
1922-23 700 (1920)	
		1,200 (1921)	
		<hr/>	
		2)1,900	
		<hr/>	950
1923-24 700 (1920)	
		1,200 (1921)	
		2,000 (1922)	
		<hr/>	
		3)3,900	
		<hr/>	1,300

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It will thus be seen that, with a rising profit, the system favours a taxpayer. If, however, the profits of the first three years decreased, the taxpayer may claim assessment on the actual profits of each of the three years. Assume that the profits were as follows and that the business commenced on 1st January 1920 :—

Year to 31st December 1920	..	£	3,000
" " 1921	..	2,000	
" " 1922	..	1,200	
" " 1923	..	700	

The assessments would be :—

1919-20	..	¼ of	£ 3,000	£ 750
1920-21	..	..	3,000 (1920)	3,000
1921-22	..	..	3,000 (1920)	3,000
1922-23	..	..	3,000 (1920)	
			2,000 (1921)	
			<hr/> 2)5,000	
				2,500
1923-24	..	..	3,000 (1920)	
			2,000 (1921)	
			1 200 (1922)	
			<hr/> 3)6,200	
				2,066

The adjustment would be :—

1919-20	..	..	..	..	£	nil
1920-21	..	..	..	..	nil	
1921-22	..	..	£3,000	—	£2,000	= 1,000
1922-23	..	..	£2,500	—	£1,200	= 1,300
						<hr/>
					Repayment on	£2,300

Elementary Economics.

By Wilfred H. Grainger, A.S.A.A.*

It has always been a common error to think of wealth in terms of money only. Mr. Grainger explains its true meaning in the following paper, which is written especially for students and deals with the elementary principles of Economics in a lucid manner.

The science of Political Economy is one that has been neglected far too long by the average business man. A vast amount of wastage of time, labour, and other attributes of wealth has occurred, particularly during the past few years, largely owing to the fact that this subject had found no place in the syllabus of an ordinary commercial education.

It required the war to bring this fact very forcibly to our notice, and it is beginning to be recognised that no education is complete unless the subject of Economics is included.

The Society of Incorporated Accountants and Auditors, for example, has introduced the subject into the syllabus of the forthcoming Final Examination, and I think it is more than likely that the Institute will also amend their programme to include Political Economy.

I understand that, to the majority of those present this evening, this subject is more or less unexplored ground, and I propose, therefore, to deal with it from an elementary standard, in the hope that it may prove sufficiently interesting to give you, like *Oliver Twist*, an appetite for more.

Political Economy has been variously defined as :—

- (a) The science that treats of the wealth of nations ;
- (b) The science which studies society from the side of the agricultural, industrial, and commercial habits and customs of its members ; or, again,
- (c) As the study of making, exchanging, sharing or using wealth ; or, more simply,
- (d) As the law of household management applied to communities.

You probably know it was a professor at the Glasgow University named Adam Smith who, in 1766, first published a treatise on Economics under the title of the "*Wealth of Nations*," and although owing to the great advances made in science and manufacture since the introduction of machinery, mechanical transport, &c., usually referred to as the Industrial Revolution, many of Adam Smith's theories are no longer considered to be sound, yet he is still always referred to as the pioneer of this science, and a great number of his doctrines remain unaltered.

*A lecture delivered before the Nottingham Chartered Accountants Students' Society, on Wednesday, April 7th, Mr. Francis Atkin, A.C.A., in the chair.

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Now, we all probably have our own ideas of what constitutes wealth, but let us see how wealth is defined from an economic point of view.

This, again, has been variously described as :—

- (a) Anything having an exchange value.
- (b) Only those things which are capable of being transferred, which are limited in supply, and which are useful.
- (c) The amount that people require to satisfy their needs, either directly or indirectly, and which they must spend time and effort in obtaining.

It has always been a common error to think of wealth in terms of money only; formerly it was customary to estimate the wealth of a country by the amount of gold and silver it contained, and this resulted in the restraint of commerce in endeavouring to prevent gold and silver from being sent out of the country. We have only to look back into history a little way to see how erroneous this idea was; for example, the money of the Chinese at one time consisted of small cubes of compressed tea, other countries have used shells or cattle as money, and indeed every country at some time or other in its history did not possess coinage of an elementary description, and exchange had to be carried on by the process of barter.

It will be seen, therefore, that it is quite a fallacy to think of wealth only in terms of money, as it consists obviously of anything having an exchange value.

This idea is usually known as the Mercantile System, and the exposure of this error was one of the great features of Adam Smith's book, which pointed out that by placing large duties upon goods imported from abroad in order to discourage purchases in this country, which had to be paid for in gold and silver, thus decreasing England's wealth, was of no actual benefit to this country, as home trade alone could not increase the amount of gold and silver in the country, and proved, further, that if free trade were introduced the exports and imports of a country would tend to balance.

I said that wealth's first attribute was transferability, so that it may consist of chattels which can be actually handed over; it may be property which must be transferred by deed, or it may consist in personal service, as in the case of an artist, a preacher, or a doctor, who transfers his services to another.

Secondly, it must be limited in supply. If gold or diamonds could be picked up in the street by any passer-by, they would no longer constitute wealth; it is only because the supply is limited that they become valuable.

Thirdly, wealth must be useful or serve some purpose, and useful things have been defined as those which directly or indirectly produce pleasure or prevent pain.

It is usual to speak of the "utility" which may be derived from wealth, and this may broadly be divided into two classes, (1) the *direct* utility derived from things which are wanted for themselves, such as food and clothing; and (2) *indirect* utility arising from the

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utility of the first class, e.g. it is the direct utility of food that makes the indirect utility of the knives, forks, and spoons with which we consume it.

We must not confuse utility, or value in use, with value in exchange, and the fact must be clearly grasped that the value which economics attaches to utility is not what it *ought* to be worth but what it is *actually* worth, for things being of great value from the point of view of utility, might conceivably be both worthless and harmful from a moral standpoint.

Now utility may be subdivided into "total utility," i.e. the total amount of satisfaction from the total supply of any article possessed—e.g. if you purchase six loaves of bread, the utility of each extra loaf diminishes as the supply increases, and the *total utility* is the power of the whole six loaves to satisfy your desire for food; whilst the second class of utility, known as "*marginal or final*" utility, is represented by the amount of satisfaction you receive from the last of the six loaves you have purchased.

Following these principles we come naturally to the very important law of diminishing utility, which states that the more we have of a thing the less we want more of it; there are, of course, exceptions to this rule, e.g. the collector's mania for specimens of certain things, the dipsomaniac's love of drink, the person addicted to drugs, &c.

To put this statement in a different form, the more we consume of a thing the less becomes its marginal utility to us—although the *total* utility of the larger will be in excess of the total utility of the smaller—e.g. the marginal utility of an ounce of tobacco will be higher to you if you buy two ounces a week than if you buy four ounces, but at the same time the *total* utility to you of four ounces will be greater than that of two.

It is obvious, I think, to you all that if we have unlimited supplies of anything its marginal utility will disappear altogether; it is quite true that water, for example, is of infinite utility in its initial supply, as no one can live without it, but we can all think of instances when an excess of water is not only of no value but is even harmful, as in the case of a burst water pipe after a severe frost.

The application, then, of this law of diminishing utility is expressed in the price which will be paid for things, i.e. the more we have of a thing the less do we wish to pay for any more of the same thing, and this, in other words, is the law of supply and demand.

Let us now look at what is called the law of substitution or equi-marginal returns, which relates particularly to the spending of wealth, and states that each of us will tend to buy different things in such relative quantities that their marginal utilities become the same.

It may also be explained as the possibility of using two commodities, either of which answers the same purpose, though one, to a greater extent than the other, acts as a limitation in the price of either. We have seen a very good illustration of the application of this rule in places where people refused to buy butter at 5s. a pound, and as a consequence the vendors were obliged to reduce the price to 3s. 6d.,

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or again, many people refuse to buy butter at all and substitute margarine, which is another application of the law of substitution.

We have another class of utility which is called multiplication of utility, e.g. public picture galleries, libraries, and museums.

The Production of Wealth.

The three essential factors in the production of wealth of any description are, (1) Land, (2) Labour, (3) Capital.

In order to create wealth in the first instance we must obtain it either directly or indirectly from land, i.e. either from some mineral won from the land or some produce grown upon it : it is true, of course, that we must include also rivers and oceans which are sources of considerable wealth, and we speak of land and water as being the source of materials, or natural agents.

It is quite evident that natural resources cannot of themselves make wealth, and in order to convert them into wealth it is necessary to employ labour, so that the amount of wealth that can be obtained depends far more upon the amount of labour that can be employed than upon the amount of the natural resources available.

In order to employ labour, the third essential of wealth, Capital, becomes necessary, as we cannot obtain labour without payment.

It is important that labour should be employed in such a manner as to make it as productive as possible, and in order to obtain the best results the work must be done at the best time, at the best place, and in the best manner, so that good organisation and good education plays a large part in obtaining efficiency of labour. It is undoubtedly a proven fact that organisation is the corner stone of modern commerce, and success or failure depends entirely upon whether the organisation is sound or unsound.

The Government has done much at various times to improve the conditions under which work is carried on, by factory legislation, as, for example, regulating the hours of work for women and children, and making special regulations in dangerous trades (e.g. forbidding the use of naked lights in coal mines). Science has done a great deal to help labour to be more productive than it could otherwise have been, by teaching us better and improved methods by which time and trouble, and, consequently, capital, is saved.

Division of Labour is an important economic factor, whereby the manufacture of any article or commodity is separated into different processes and one man is employed to carry out each stage of its manufacture instead of the whole being made by one man. This specialisation must naturally make for efficiency, economy, and saving of time, as each man will become an expert in dealing with his particular process ; and in many cases this system has resulted in the invention of improvements, as a person who is constantly doing the same thing is much more likely to endeavour to find out a quicker way of doing it than one who does a great many things. Further advantages of this division of labour may be seen in (a) the *multiplication of services*. Take, for instance, the case of our postal service ; if everyone had to send their own messenger to deliver a letter the time and expense incurred would be an almost insuperable bar to commerce, but by the

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division of labour, whereby one man takes perhaps two or three hundred letters, we are able to communicate easily and economically with our friends and clients. (b) Then there is the *multiplication of copies* which largely increases the productiveness of labour, as in the case of books, &c., when once the type has been set up, further copies can be produced at a comparatively small cost beyond that of the paper and binding. Two further great advantages of this division of labour are : (a) that everyone can choose the occupation to which he is best suited ; (b) that different kinds of work may be carried out in the places most suitable for each, and where it is most productive.

Important as is the division of labour, co-operation of labour is a factor of almost greater importance in augmenting the efficiency of labour ; and this may be either " simple," as in the case of several men helping to do the same thing, such as felling a tree or hauling an anchor, or it may be " complex," i.e. where different people and trades all assist in producing a final result, as in the case of building a house. It has been argued that there are disadvantages arising from the division of labour, but these are so outweighed by the advantages that it is scarcely worth while to mention them ; briefly, however, they are said to be, (1) the narrowing and restriction of a man's power when confined constantly to one class of job ; (2) that owing to this division and co-operation trade becomes very complicated, and when one part becomes deranged the result may be ruinous to many others.

Capital.

Capital is one of the most important factors in production and is sometimes defined as being that portion of wealth which we use to aid in producing more wealth. Obviously, capital is the result of saving or economy and it may be either " fixed " or circulating.

Fixed Capital, as its name suggests, consists of factories, machinery, ships, railways, &c.—in fact anything which will last a long time and aid in production, but we cannot include *every* kind of fixed property, for instance, churches, monuments, &c., are not fixed capital, as they do not aid in the production of wealth.

Circulating Capital consists of all those things necessary to support labourers whilst engaged in productive labour, such as food, fuel, clothing, and other necessities of life. It is sometimes rather difficult to draw a distinction between fixed and circulating capital, but it really resolves itself into a matter of *time*, and the longer it lasts and fulfils useful service the more *fixed* it is, whilst the more quickly it is used, worn out, or destroyed, the more it becomes circulating.

There are other classes of capital, e.g. :—

Specialised Capital, which can only be used for the specific purpose for which it was created, as in the case of the telegraph or telephone.

Auxiliary Capital spent on tools to assist the labourer in production.

Floating Capital, which can be easily converted and re-invested, e.g. bills of exchange, book debts, and, of course, money itself.

In order to fulfil its functions, therefore, capital *must be consumed*, for it is a mistake to suppose that mere hoarded wealth increases the capital of a country. As I have just shown, it is necessary to save it in order to assist production, but the only way it can afford assistance is

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by eventually being spent on maintaining the labourers and providing tools, machinery, &c.

Now let us look at the way in which wealth, when produced, is distributed—broadly, it may be divided into four shares:—

- (a) The labourer's share being *wages*.
- (b) The landowner's share being *rent*.
- (c) The capitalist's, *interest*.
- (d) The Government's, *taxes*.

From an *Economics* point of view the first three of these are not identical with *wages*, *rent*, and *interest* as we usually think of them, for wages usually consist partly also of interest. Most workmen having spent a certain portion of capital in the purchase of tools of their trade, are considered to be receiving *interest* on their capital outlay, so that *true wages* are what is left after a deduction for interest has been made.

Again, the term "*rent*" in Political Economy means what is paid for using a natural agent such as land, lakes, or beds of minerals; it follows, therefore, that the rent of a factory or house is not really entirely rent, as it also includes the interest on the capital expended in building the factory or house. The capitalist's share of the wealth produced is usually termed *interest*, and this may be either *gross interest* or *net interest*.

Gross interest must necessarily vary according to the nature of the particular business concerned, but it usually includes any additional rate of interest *beyond* the normal rate, which is calculated according to the extra risk of the particular investment, so that this additional interest may be regarded as a species of insurance premium against the extra risk.

Net interest, on the other hand, includes no charge or provision for the risk of borrowed money not being repaid, or invested money being lost, or, as we might term it from an accountant point of view, it makes no provision for a "*reserve*" or "*sinking fund*."

The most important fact regarding interest is that it tends to be the same in all businesses; it is quite true that the rates of *profit* may differ considerably owing, possibly, to the varying ratio of costs of production or to the *risk* of the particular business being greater or less, but money or capital is required *by* and is just as easily lent *to* one business as to another, and it will naturally be invested in the particular trade that offers the highest rate of interest, and this naturally tends to keep the rate of interest more or less constant.

Taxation.

You will remember the final distribution of wealth was in the form of taxes, which we may define as a compulsory contribution made to a Government towards the expenses incurred by the Government in protecting the life and property of the nation and maintaining equal freedom of all.

A tax must not, however, be confused with payment for a specific service rendered, e.g. the fee charged by the Government for delivery of a letter or telegram is not a tax, whilst the charge for a dog licence is.

Taxes may be divided into two classes, viz. Direct and Indirect, the former applying when the tax is paid by the person who actually

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bears the sacrifice, as in the case of income-tax, dog licences, gun licence, &c.; whilst the latter, or *indirect* taxes, are paid primarily by the merchants and tradesmen who subsequently recover the same (*and probably more*) from their customers, as in the case of custom and excise duties on wines, spirits, and tobacco, and legal stamp duties.

Four Canons of Taxation.

Adam Smith enunciated four golden rules in relation to taxation which are well worth your special notice.

Equality.—First, the maxim of *equality*, i.e. every subject ought to contribute to the State a sum in proportion to the income which the protection of the State enables him to enjoy.

Certainty.—Second, taxation ought to be *certain* and not arbitrary, i.e. the time and manner and amount of payment ought to be quite clear and plain to everyone.

Convenience.—Third, taxes should be levied at the most convenient time and made payable in the most convenient manner for the contributor (e.g. indirect taxes are more convenient than direct).

Economy.—Fourth, all taxes should be collectible in the most economical manner, as the burden of cost of collection naturally falls on the taxpayer.

Wages.

We may define wages as the remuneration of labour of any kind, whether mental or manual; and the modern theory of wages shows that they depend upon the efficiency of the labourer and will vary between the *maximum*, i.e. the net value of the work to the employer, and a *minimum*, viz. the lowest amount necessary to permit the employee to maintain his "standard of comfort." A distinction must be drawn between money wages and real wages. *Real* wages are in reality made up of what a workman actually consumes, in the form of bread, meat, clothes, beer, or tobacco; and if he gets more than enough of these it is immaterial whether he gets more or less money wages, except to spend on luxuries, and everything that makes commodities cheaper tends to increase the wages of everybody. It follows naturally that if an increase of wages is followed by a similar increase in the price of commodities the wage earner is in no better position, and I think we are all of us at the present time only too well aware of the truth of this statement. The only time when any of us will reap any benefit from our so-called war bonuses will be when production is increased and prices are thus reduced.

The rates of wages in any particular trade are governed very largely by the laws of supply and demand, in the same way as the prices of commodities, and will, of course, vary according to the nature of the work—whether it is skilled or unskilled, agreeable or disagreeable, dangerous or safe, constant or inconstant; whether requiring trust or not. When the relative numbers of workpeople in any trade of the same class are capable of being rapidly altered by transfer of labour from one to another it is said that the *horizontal trade mobility of labour is high*; and when members of a population are attracted from place to place on account of better wages this is called *geographical mobility of labour*.

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Now let us look at the various methods of paying wages. First, there is the payment according to a man's output, having no regard to the *time* taken in producing the output, which is called piece-work ; next, there is the ordinary time rate where the payment is so much per hour, per day, or per week, and in this case no regard is had to the *amount* of work done. Both of these systems have considerable disadvantages, for the time rate workman has no particular inducement to do his best, and in the case of piece-work there is obviously a tendency for the workman to scamp his work and consequently produce inferior results. In order to counteract these disadvantages, what is called the "*premium system*" has been introduced into modern methods of computing wages.

Under the premium system some equitable *standard output* is agreed upon, and for any excess of output over and above this amount progressively *lower* piece rates are payable, so that naturally the incentive to a larger output is decreased and the workman is less likely to scamp his work. In many undertakings it has been found advantageous to divide workmen into separate groups, a specified job being given to each group, and a payment made for the whole job—which is called "group piece rate."

Then, again, there is the profit sharing or sliding scale under which wages rise automatically with the increase of profits and fall in the same rates as profits decrease. This is a good system, inasmuch as it tends to give every workman a personal interest in the business and probably calls forth his best endeavours.

It is usual for most trades to set up what are called Joint Wages Boards, made up from representatives of both employers and workmen, who meet periodically to discuss any alterations either in the scale of wages or conditions of employment, and it is usually understood that any disputes between masters and men should be submitted to the Board before a strike is considered.

Other trades have instituted what are called Conciliation Boards, with a view to acting as mediators between employers and employees and so avoid, if possible, either strikes or lock-outs.

Or, again, disputes may be submitted to arbitration ; but this is not usually found to be very satisfactory, as it becomes a very difficult matter to enforce the award of the arbitrator if it is resisted by a large number of workmen.

There is no doubt that the trade unions have become exceedingly powerful factors of recent years in aiding workmen to secure recognition of their demands for higher scales of remuneration, in addition to securing better and healthier conditions for their members.

The funds of the unions are usually available for strike pay, sick benefits, making provision for widows or orphans of members, and for sending labour representatives to Parliament ; but they have their disadvantages, inasmuch as they usually place unfair restrictions on the output of union members and often incite men to become discontented, and consequently encourage strikes.

Tenure of Land.

Very briefly I want to show you the various ways in which land is held in this and other countries.

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Many parts of rural England are still practically under a feudal system by which the large landowners refuse to let their farms upon leases of any length, preferring to have farmers who are known as "tenants at will," and may be turned out at a year's notice, thus being deprived of all the improvements and capital they have sunk in the farm. Obviously this system is bad, because it acts as a deterrent upon the tenant putting in capital and improving the land. Next, there is leasehold tenure, which, as you know, is effected by entering into a formal contract for a fixed term of years during which the land is held subject to the payment of an annual rent. Again, there is what is known as "tenant right," which gives an outgoing tenant the right to claim the value of any improvements he has made which are not exhausted, such as drainage, fencing, or manuring.

In Ireland there is what is called *Ulster* tenant right, where an incoming tenant pays an outgoing tenant for the improvements the latter has made on the farm. On the Continent land is very often held on what is called the *Metayer* system, by which the tenant, instead of paying a fixed money rent to the landlord, agrees to hand over a certain proportion of the produce of the land—usually a half; and very often the landlord will himself assist the tenant in putting up improved farm buildings, or in providing stock, implements, or seeds.

Finally, there are what are called the *Cottier* and *Conacre* tenancies of Ireland, now more or less obsolete; in the former case the rent was usually fixed at a higher figure than the value of the land's produce, the result being practically starvation for the wretched tenant, as the landlord was able to seize all the produce on account of the rent.

In the latter case it was the practice of a landlord to remunerate his workmen by giving them a small plot of manured land free of rent.

Money.

It will be quite evident to you all that it would be exceedingly difficult to carry on commerce by the methods adopted by our very distant ancestors, viz. by exchange or barter, as it was called; the disadvantages accruing led to the introduction of a medium of exchange called money, and money has been defined by Walker as being that which passes freely from owner to owner throughout the community in final discharge of debts and full payment for commodities. The functions of money are:—

- (a) To act as a medium of exchange and to be universally acceptable.
- (b) To be a measure of value, i.e. something in which the value of all other commodities can be estimated and compared.
- (c) To act as a standard for deferred payments or something in which amounts to be paid at a future time can be easily expressed to the satisfaction of both Debtor and Creditor.
- (d) To be a store of value, i.e. something which retains its purchasing power.

Further, to be a good medium of exchange it is necessary that money should be capable of being easily transported, it must be easily recognisable, and it must be readily divisible without loss of value (so, for example, pearls would be a bad medium of exchange, as practically all value is lost directly they are broken up or divided). It is obvious,

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then, that metals form the best form of money, and when a metal comes into use in any country it is called the standard of value, and the Government, in dividing it up into coins of a specific weight, is said to coin it.

Coinage is said to be *free* if the Government will coin any amount of standard metal for anyone who requests them to do so, and although England is said to have a free coinage it is usual for people to take bullion to the Bank of England and take coin or notes in exchange. It can be taken to the Mint for coining, but then a certain delay is inevitable. The Government make no charge for doing this, and it is said, therefore, to be a gratuitous coinage, but if the exact cost of minting is charged the fees are known as *brassage* or *mintage*, and if a profit charge is made, then it is called *seigniorage*.

A very well-known law must be mentioned in this connection which is known as Gresham's Law, which states that "bad money will always drive out good money from a country."

The application of this law is quite evident, as the coins that would be selected for exportation would naturally be those of fullest weight, thus leaving behind the coins of a weight *below* standard; or, again, if in a country there are two *different* forms of money in currency, one being better than the other, as is the case in many places abroad, and they are both legal tender for any amount, the inferior one will tend to drive out the superior one by reason of the fact that when a payment is made in that particular country the debtor can force his creditor to take the *inferior* coinage, but if on the other hand he is making payment *abroad* the creditor will not be bound by the same laws of legal tender and will probably insist on being paid in the superior kind of coinage.

It is very important, therefore, that the standard coinage of a country should be kept at a high level, and this is usually done by passing a law that all defaced coins, or coins below a certain weight, are not legal tender and, therefore, must be withdrawn from circulation.

Economists usually speak of money which has a face value above its actual intrinsic value as *credit* money, as it depends for its acceptance upon the credit of the Government issuing it, but, commercially, the term credit money is usually confined to notes and cheques and what is called token money. Before the war our silver coinage was, in effect, token money, but owing to the enormous rise in the price of silver it is no longer so, as the actual intrinsic value is more than the face value.

Money is usually referred to as "currency," as it circulates easily from hand to hand.

I do not think I need take up your time in explaining the system of credit money in relation to cheques, for the functions of banks must be common knowledge to you all, but I might just mention the important part played by the *Bankers' Clearing House*, which is an institution where representatives of different banks meet to cancel sums due from one to the other and to pay and receive such balances as may be over, these being paid in drafts on the Bank of England and are cancelled

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to a large extent from day to day, so that the system greatly economises the use of the currency of a country. In fact, the whole economy of a well-ordered community is dependent upon the stability and prudent management of its banks. It might interest you to know that the Bank of England, which was founded in 1694, is *not* a *Government* institution, although no doubt the Government would lend its support if it became necessary.

It is the custom of British banks to deposit a large part of their gold reserves with the Bank of England.

Foreign Exchange.

We have read so much in the papers about the fluctuations in exchange recently that I feel I cannot do better than conclude my lecture with a few remarks upon this matter. The whole question of foreign exchange practically rests upon what is known as the *balance of trade* between England and other countries; i.e. if we export more goods than we import, there is a balance of trade in our favour, or, in other words, the other countries owe us more money than we owe them.

Recently, as we know to our cost, the balance of trade has been largely against this country with America, and as a consequence the value of the £ sterling in dollars has greatly depreciated.

It is the element of distance that creates the problems of exchange, and when it becomes necessary for a person to discharge a debt in a foreign country it is usually done by the means of purchasing a foreign bill of exchange payable in that country, and as is the case with all other commodities it is the law of supply and demand which governs the price at which such foreign bills can be bought (for bills of exchange have been defined as the raw material of the money market).

If the demand for and the supply of bills exactly balance one another the rate of exchange between two countries would be equal and is called the *Par of Exchange*, but as this could never be the case unless an international currency were in use, Cambists have adopted as a substitute the "*Mint par of Exchange*," which is the actual value of fine gold in the standard coin of one country as compared with that in other countries, e.g. mint par of exchange between London and Paris is 25 fcs. 22½ centimes. The official statement which is issued daily to show the price of bills of exchange drawn on particular places abroad is called the *Course of Exchange*.

Exchange is said to be at a premium when the demand for bills is much greater than the supply, and although this does not often happen here, if it did it might mean that it would be cheaper to export actual gold, specie, or bullion than to buy bills at a premium, and in such a case exchange is said to have reached "*Gold Point*" or "*Specie Point*."

Conversely, if the supply of bills on a foreign country is greater than the demand, exchange is said to be at a discount (or *rises* to a discount).

In conclusion, I must ask you to forgive the very brief manner in which I have been obliged to deal with many of the different phases of this great subject, but when you come to study it for yourselves you will, I think, understand the grave difficulty with which a lecturer is faced in attempting to touch upon the many sides of Political Economy in a forty minutes lecture.

EDITORIAL.

Public Speaking.

A correspondent who modestly signed himself "Not a Cicero," suggested in last month's issue that the Student Societies did not afford sufficient opportunities for the younger men to practise public speaking, and he expressed the opinion, with which we entirely concur, that it is very necessary for an accountant to speak well at company and creditors' meetings.

The art of public speaking is very much a matter of training, and can be acquired by anyone of ordinary intelligence, yet it is a surprising fact that comparatively few men are able to address an audience with any degree of confidence.

Yet with a little practice it is possible to become, if not a fluent speaker, at least one sufficiently competent to gain the ear of the audience.

Some advice to the young student who wishes to become proficient in the art may, therefore, be of practical use.

We do not propose to lay down any hard and fast rules as to articulation, or to suggest that the student should seek the seclusion of some mountain top, where amid rugged rocks and gorse and heather he can make impassioned appeals to an audience of eagles and other wild fowl in the vicinity. The suggestions we have to offer are far less pretentious, and, we hope, of a more practical character than that contained in the usual manual on the art of speaking in public.

The beginner should in the early stages write out his speech *in full*, and commit it to memory. His early attempts should not be too ambitious, and, therefore, as short as possible.

The advantage of writing out a speech is that the would-be orator can in the solitude of his study obtain a sequence of thought and a vocabulary of appropriate words not possible when facing an audience, and we know many accomplished speakers who invariably adopt this method when they have any important speech to deliver.

True, they do not actually commit the speech to memory, as we advise the beginner to do, but the main lines of argument are focussed in their brain, and they can, therefore, when making the speech, follow out some definite plan.

If at first the beginner is too nervous to rely on his memory, we recommend him not to be ashamed to read his speech.

After all it is his own composition, and there is more credit due to the man who can read a good speech than to the man who can only make a bad speech, to which no one wants to listen even if he has no notes.

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The beginner should not aim at being humorous. True, a good tale, or an apt quotation, is generally appreciated, but unless told well is better not told at all.

After becoming accustomed to the sound of his own voice and encouraged by the way in which his early efforts are received, the beginner can venture to talk without committing the speech to memory.

He should, however, still continue to write it out in full, dividing it up under various heads and sub-heads on a summary sheet, which he can use during the course of the speech for reference.

Thus, supposing he wished to address a meeting on "Public Speaking," his notes would be prepared thus:—

1. *What the beginner should do.*
 - (a) Write out speech in full.
 - (b) Advantages of writing out.
 - (c) Speakers adopting this method.
 - (d) Reading speech.
2. *Avoid being humorous.*
3. *When speech need not be memorised.*
 - (a) Use of notes.
 - (b) Etc. etc.

He should not be afraid of letting the audience see that he is making use of notes. It is only a sense of false pride that induces some speakers to try and make their auditors believe they are talking extempore when in reality they have rehearsed the speech until it sounds like a recitation.

With a little practice the would-be orator will find that he is able to *think* at the same time that he talks, and gradually, provided he has prepared a rough skeleton of the line he intends to follow, he will be able to find the words as he goes along.

It is very necessary to study the audience when talking. We have found that quite involuntarily we single out certain individuals, and watch the effect of the speech on them, noting whether they are following the argument and "getting" the points we are trying to make.

We well remember in this connection a political meeting we once addressed, when we told some stories which seemed to grip our hearers with the exception of one old man in the front row, who listened most attentively and applauded at different times, but who never smiled, although that night we had a special stock of new tales that seemed to please everyone else.

After the meeting we mentioned the lack of humour on the part of the old man to our chairman. "Oh," he said, "You mean old

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"Wilson. He is stone deaf ; he can't hear a single word, but he "likes to come to the meetings, and *pretend* he understands the "speeches."

There are, however, a few essentials without which the speaker cannot hope to be successful.

(a) Knowledge of the Subject.

No man can make an effective speech on a subject about which he is ignorant. He can talk *on* it, he can talk *round* it, but he will not appeal to his audience unless he has a proper grip of his subject.

(b) Flow of Language.

The speaker must have command of a good vocabulary. This can best be acquired by reading standard works by first-class authors.

The use of long words, and of Greek or Latin phrases, may sound learned, but generally the audience will not understand their meaning, and the effect may be to make them think the speaker is trying to "swank."

Similarly only the trained speaker can afford to use "slang," for although sometimes effective, it can only be used with advantage on rare occasions.

(c) Arrangement of Argument.

The speaker must be able to develop his arguments in logical sequence, and in such way that the audience can follow his thoughts to their conclusion. He must, therefore, "keep to the point," and not be tempted to wander off into the by-ways in order to make some irrelevant "hit" which either loses the force intended, or destroys the main line of argument because it is out of place.

(d) Deliberate Enunciation.

It is very desirable that the would-be orator should learn to speak slowly and deliberately.

If he go too quickly, although the audience may hear the words, their brains are not sufficiently active to grasp their meaning, and the point of a fast-spoken sentence is lost in the words of the next.

In commencing the speech the speaker must test the pitch of his voice to find out whether it is carrying to the back of the room. If he see that those some distance away are leaning forward as if unable to hear, he must speak louder until he is certain his voice is reaching them.

Another fault of many speakers is the habit of dropping the voice at the end of a sentence. Although on occasions this may be impressive, and have a marked effect, in ordinary cases it is a style to be avoided, spoiling as a rule the bite of the remainder of the sentence.

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(e) Style.

Every speaker, like every writer worthy of the name, has a style peculiarly his own. Such style is usually studied, and not natural as many think is the case. The would-be orator should, therefore, attend meetings addressed by well known speakers, and study their methods and characteristics and then decide which to attempt to follow.

Some discrimination is, of course, necessary, depending to some extent on personal attributes.

For example, it looks ridiculous for a small, thin, weakly individual of 7 stones to adopt a bull-dog attitude and to thump the table every few minutes as proof of his determination to drive home some point.

Similarly, it is equally pathetic to see a big fellow of six feet high and 42 inches round the chest adopting the attitude of a Methodist parson, with his hands folded in front of him, and his eyes gazing heavenward.

The best advice we can give the man who *really* wishes to become a good speaker is to get some of his friends or his sisters (or his friends' sisters) to sit in the front row and then afterwards express their opinions of his style and manner of delivery.

It is not a pleasant cure for mannerisms, but the medicine is none the less effective!

The subject matter of a speech has, of course, some bearing on the method of delivery and general style.

(a) Business Meetings.

The sentences should be fairly short, and delivery very slow, so that the audience may make notes if desired.

As few figures as possible should be quoted, and where unavoidable, "round figures," such as thousands, hundreds, and tens should be used. It is always a good plan to give percentages omitting the decimals, as the audience can carry these in their head.

The speech should be previously prepared where this is possible, and divided into main heads and sub-heads, and any subsequent discussion which takes place will then usually follow the same order.

(b) Political Speeches.

The successful speaker at a political meeting is the one who can "hit hard."

It can always be assumed that the majority of the audience are of the same political persuasion, and their fighting spirit must be aroused.

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It is for the candidate to make a constructive speech, and for the other speakers to indulge in destructive criticism of his opponents.

Repartee, if smart, always wins over an audience, and in certain cases it is a good plan to *arrange* beforehand for certain interruptions, and to prepare the replies to be given.

(c) After Dinner Speaking.

Excepting in the case of the chief guest of the evening, it should always be remembered that no one wishes to listen to after-dinner speeches, and, therefore, the less said the more it is appreciated.

The only successful after-dinner speaker is the man who has a good stock of new stories and knows how to tell them.

A fatal mistake is, however, to tell some tale which appears in the current issue of "Punch" or the "Sporting Times"—everyone will know it, and the speech falls flat.

(d) Discussion after Lectures, &c.

There is nothing more tiring, both to the audience and to the lecturer than for successive speakers to get up and express the opinion that the paper is one of the most interesting they have ever heard, and that as the lecturer has covered the ground so thoroughly there is nothing more to be said on the subject.

If the subject is one they know anything about they must be in a position to relate their own experience, and thus add to the information already given; if it is one with which they are not familiar there is certain to be some point they do not understand, and they are helping others if they seek further elucidation.

Students are advised to take this hint.

(e) Weddings and Other Social Functions.

Those unlucky enough to be required to speak at such functions are advised first to kiss the Blarney-stone.

A Fulsome-Flattery-Formula should be adopted.

These hints on public speaking will, it is hoped, be of some use to the young student who is not yet accustomed to the platform. Once the first sense of nervousness is overcome, he will find that he can tell from the demeanour of his audience whether they are interested in what he is talking about, and if he is making his points understood.

The ability to mesmerise an audience, as some great speakers can do, is a psychological power possessed by but few; nevertheless, any man who is able to speak well and clearly has a considerable advantage in the race for fame and position in every sphere of life over his more silent competitors.

And our final advice to the beginner is: Talk slowly, talk shortly, and talk sense.

Notes.

The Annual Meeting of the Institute.

There was a large attendance at the thirty-ninth annual meeting of the Institute held on the 5th ult., and several points were raised which are of interest to our readers. The first and only woman Chartered Accountant in the world is now upon the register of the Institute, Miss Harris-Smith having been admitted a Fellow under Clause 6 of the Charter as extended by the Sex Disqualification (Removal) Act, 1919. Miss Harris-Smith has been in public practice as an accountant since 1878.

The National Guild of Accountants' Clerks was referred to by Mr. J. W. Woodthorpe in his presidential speech, and also by Mr. T. W. Collin, the latter speaking strongly in favour of the Guild. The President expressed his personal sympathy with the clerks, but repeated that the Council did not see their way to take any action in the matter.

It was also announced that a committee has been appointed by the Council for the purpose of advising as to a suitable memorial to be erected to the memory of those members and articled clerks who fell in the war. The recommendations of the committee will be awaited with interest.

Notices Convening Company Meetings.

Some interesting points were raised in the hearing of the petition of the *North of Scotland, &c., Steam Navigation Co.* (1920, 1 S.L.T. 23) for confirmation of a proposed alteration of its constitution and extension of its objects. The necessary meetings were convened by the following notice: "Notice is hereby given that a general meeting of the company will be held within the company's office on Friday, the 15th day of August current, at 12.30 p.m., when (the "subjoined resolution) will be submitted for approval, and, if passed, "another general meeting of the company will be held in the company's "office on Friday, the 5th day of September next, at "12.30 p.m., when the said resolution will be submitted for final "determination and approval." It was contended against the company that the notice did not describe the resolution as an extraordinary or special resolution, or state that it was to be confirmed at the second meeting as a special resolution. (2) That the alteration proposed in effect to substitute a new memorandum and articles for the old constitution, and the notice given did not contain the terms of the memorandum and articles which were proposed to be adopted, nor was a copy thereof sent to the shareholders, nor were the shareholders informed where the memorandum and articles could be seen. (3) The meeting was only called conditionally on the resolution having been passed at the August meeting.

The Court held that the omission to enclose a copy of the proposed memorandum and articles, and that calling the meeting conditionally,

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were fatal defects which necessitated the procedure being begun *de novo*; they also held that the resolution would have been better described as a special resolution, though failure to do this would not of itself have invalidated the procedure.

Capital Stamp Duty.

The following resolution was passed by the House of Commons in Committee of Ways and Means on 19th April 1920.

"That as from the nineteenth day of April nineteen hundred and twenty, the *ad valorem* stamp duty charged on statements of the nominal capital of any corporation or company, and on statements of the increase of any such capital, and on statements of the amounts contributed by a limited partner to a limited partnership, and on statements of any increase in any such amounts, shall be at the rate of £1, instead of 5s., for every £100 or fraction of £100."

Although the additional 15s. per cent. duty cannot legally be demanded until the Finance Bill is on the Statute Book, it will then be retrospective as from 20th April. Company registrations are now being accepted on an undertaking to pay the additional duty on the Bill becoming law, and where the full amount is paid the Registrar undertakes to refund the amount overpaid if the increase is not passed.

Annuities.

A correspondent writing to *The Accountant* gives the following formulæ for calculating annuities:—

$S \frac{m}{n}$ = Amount of an annuity—certain of 1 for "n" years.

Interest convertible and annuity payable "m" times a year.

(1) At the nominal rate of interest "j"

$$S \frac{m}{n} = \frac{\left(1 + \frac{j}{m}\right)^{mn} - 1}{j}$$

(2) At the effective rate of interest "i"

$$S \frac{m}{n} = \frac{1}{m} \left\{ \frac{(1+i)^n - 1}{(1+i)^{\frac{1}{m}} - 1} \right\}$$

$A \frac{m}{n}$ = Present value of the same annuity.

Notes.

(1) At the nominal rate " j "

$$A \frac{m}{n} = \frac{1 - \left(1 + \frac{j}{m}\right)^{-mn}}{j}$$

(2) At the effective rate " i "

$$A \frac{m}{n} = \frac{1 - \left(1 + i\right)^{-n}}{i}$$

N.B.—" j " and " i " are symbols for the interest on 1 for 1 year, and not the rate per cent. Thus at 4 per cent. $j = .04$.

The effective rate of interest varies, of course, according to the number of times a year that interest is convertible. Where it is convertible yearly, i and j are the same.

The Chartered Accountant Students Society of London.

We are asked to announce that the Committee has made special arrangements for the holding of Coaching Classes in connection with the next examinations of the Institute as follows: The legal subjects will be undertaken by Herbert Jacobs, Esq., B.A., Barrister-at-Law, assisted by T. E. Haydon, Esq., M.A., Barrister-at-Law. The Accountancy classes will be conducted by F. R. M. de Paula, Esq., O.B.E., F.C.A. (lecturer on Accountancy at the London School of Economics), assisted by William E. E. Newman, Esq., A.C.A. Members intending to join these classes are advised to write to the secretary at once.

The classes in legal subjects are held on Mondays and Thursdays, at 5.30 p.m., commencing 14th June 1920, and in accountancy subjects on Tuesdays, at 5 p.m. (Intermediate), 6 p.m. (Final), commencing 15th June 1920, and on Wednesdays, at 5 p.m. (Intermediate and Final), commencing 16th June 1920.

All classes will be held at the Hall of the Institute, Moorgate Place, E.C.2.

The fees for the full course in all subjects are: Intermediate, £12 12s., Final £15 15s., with a reduction to articulated clerks returned from "service" who have been granted by the Institute special facilities with regard to the examinations.

The following prizes are offered in connection with these classes: Final, £10 10s., Intermediate £5 5s., given by the President of the Society, Sir William Plender, G.B.E., F.C.A. Final: First prize, £6 6s., second prize, £2 2s. Intermediate: First prize, £2 2s., second prize, £1 1s., given by the Society.

Income Tax Notes and Comments.

Arrangements have been made to reply to Income Tax and Excess Profits Duty queries by post, but only to actual subscribers. The replies will be published in the "Journal" under noms de plume. A stamped addressed envelope should be enclosed.

The Finance Bill.

The provisions of the 1920 Finance Bill have an important effect on income-tax, and the following points should be particularly noted :—

Abatement.

The abatement and exemption limits are now £135 for a bachelor and £225 for a married man without children under 16 years of age at 6th April 1920.

Children.

For the first child under 16 the allowance is £36, and for other children under 16 £27.

The term "child" includes an adopted child, a step-child, and an illegitimate child whose parents have married each other, and the limit of 16 years of age is removed when the child is receiving full time instruction at any university, college, school, or other educational establishment.

No allowance is permissible if the child is entitled in his own right to an income exceeding £40 per annum. The value of any scholarship is not to be treated as income.

Colonial Income Tax Relief.

Relief from double taxation is to be given by allowing the rate of the Colonial tax against the English rate, but if the Colonial rate is one-half or more of the English rate, the relief is only one-half of the English rate. The latter rate is not the maximum income-tax rate of 6s. but the actual rate appropriate to the individual.

Corporation Profits Tax Deduction.

This tax is to be deducted from the income-tax in the same manner as Excess Profits Duty, i.e. it is allowable against the profits of the trading year for which it is paid, so that the corporation profits tax for the trading year to 31st December 1920 would be allowable against the income-tax profits for that year, thus coming into the averages for the three years 1921-22, 1922-23, and 1923-24.

The working of the corporation profits tax is dealt with below.

Dependent Relatives.

The deduction for a dependent relative is £25, and it applies to the widowed mother of the taxpayer or his wife and also to any relative

Income Tax Notes and Comments.

of his or of his wife who is physically incapable of maintaining himself or herself. The total income of the dependent must not exceed £25 per annum. If two or more persons maintain the dependent the allowance is to be apportioned in accordance with the respective contributions.

Earned Income.

The differentiation in rates between earned and unearned incomes is abolished, and earned income is reduced by 10 per cent. up to a maximum reduction of £200. The allowances for children, the abatement, and that for dependent relatives are deducted, and then the remaining income is charged at 6s. in the £ except the first £225, which is charged at half rate of 3s. Assume an income is composed of £500 earned and £250 unearned, and that the taxpayer has a wife and two children under 16 years of age. The liability would be :—

Earned Income	£
Less 10 per cent.	500
	50
	<hr/>
Unearned Income	450
	250
	<hr/>
	700
Less Abatement	£
2 children	225
	63
	<hr/>
	288
	<hr/>
	£412
	<hr/>
At 3/- on £225	
At 6/- on 187	
	<hr/>
	£412
	<hr/>

Life Assurance Premiums.

The allowance for life assurance premiums is to be made as follows :—

- (a) Where the total income does not exceed £1,000, at one-half the standard rate, i.e. 3s.
- (b) Where the total income exceeds £1,000, but does not exceed £2,000, at three-fourths of the standard rate, i.e. 4s. 6d.
- (c) Where the total income exceeds £2,000, at the standard rate, i.e. 6s.

Non-residents.

The applicability of relief to persons resident abroad is extended by including any person who is a British subject. Tax at the full rate of 6s. in the £ *without any allowances* has to be paid by a non-resident on income arising in the United Kingdom, unless such non-resident is within either of the following categories, when the minimum liability becomes the proportion of that tax which would be chargeable on the *total income from all sources* if the non-resident were resident here, which the income actually assessable here bears to such total income. Thus, if a non-resident received £200 per annum from England, and £700 from abroad, he would be liable on £200 at 6s., unless he was within the categories below. If he were say within (2) and had a wife but

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no children, and £400 of the foreign income was earned, his liability, if he were *not* non-resident, would be :—

Earned	..	..	..	..	..	£
Less 10 per cent.	..	..	..	..	..	400
						<u>40</u>
Less Abatement	..	..	..	..	..	360
						<u>225</u>
Unearned	..	..	..	..	..	135
						<u>200</u>
						<u>£335</u>
Being	£225	at	3/-	=	£	s
"	"	110	at	6/-	33	15
				=	33	0
					£66	15
					0	0

The income actually assessable here is £200, and the total income is £900, so that the minimum liability is 200/900ths of £66 15s.

Super-tax.

The rates of super-tax are :—

For each	£ over	£2,000	or under	£2,501	..	..	1/6
"	"	2,500	"	3,001	..	..	2/-
"	"	3,000	"	4,001	..	..	2/6
"	"	4,000	"	5,001	..	..	3/-
"	"	5,000	"	6,001	..	..	3/6
"	"	6,000	"	7,001	..	..	4/-
"	"	7,000	"	8,001	..	..	4/6
"	"	8,000	"	20,001	..	..	5/-
"	"	20,000	"	30,001	..	..	5/6
"	"	30,000	"	—	..	..	6/-

Corporation Profits Tax.

This new tax applies to all accounting periods ending after 31st December 1919 and is 1s. in the £ on profits in excess of the first £500, but the tax is in no case to exceed 2s. in the £ on the profits *after* deducting any interest or dividends paid at a fixed rate on any debentures, preference shares limited to dividends at a fixed rate, or permanent loan issued before 20th April 1920.

The term " permanent loan " means a loan of a permanent character secured by mortgage or debentures or otherwise on the assets or income, and which, if repayable, necessitates at least three months' notice.

The tax applies to all British limited companies and to any foreign companies in respect of trading here.

Basis of Profits.

Profits are to be computed on income-tax principles subject to the following :—

(1) All profits from lands and buildings shall be included as also all interest and dividends except from a company liable to corporation profits tax.

(2) No deduction shall be allowed for the annual value of business premises.

Income Tax Notes and Comments.

(3) Interest on borrowed money, rent, and royalties are deductible, except interest or royalties paid to a person having directly or indirectly a controlling interest in the company and interest on permanent loans.

(4) The deduction for the remuneration of any director, manager, or other person concerned in the management and who has a controlling interest directly or indirectly shall not exceed £1,000 per annum.

(5) Artificial transactions for the reduction of profits shall not be allowed.

(6) Deductions for depreciation, renewals, &c., shall only be such as are allowable for income-tax.

(7) No deduction shall be made for income-tax or corporation profits tax.

(8) Excess profits duty shall be deduction, but the corporation profits tax shall not be deducted for excess profits duty purposes.

(9) In the case of mutual trading concerns, the surplus arising from transactions with members shall be included and in the case of societies registered under the Industrial and Provident Societies Act, 1893, sums paid by way of bonus, discount or dividend on purchases shall be deducted.

(10) In the case of life assurance companies, the part of the profits belonging or allocated to or reserved for policy holders or annuitants shall be apportioned between the profits directly liable and those not so liable, and a deduction made of the amount apportioned to the liable profits.

When the accounting period commences before 1st January 1920, and ends after that date, the profits are to be apportioned according to the period before and after.

Liquidators.

Liquidators are to make provision for the tax, to the satisfaction of the Revenue, before distributing the assets.

Accumulating Profits.

A correspondent, "Dus," inquires as follows:—

(1) *Can machinery purchased during an accounting period out of profits of that period be treated as capital for that year?*

(2) *If A. has borrowed £2,000, and has investments of £2,000, can one be set off against the other?*

(3) *In the case of a new business commenced by A., whose 1913-14 salary was £200 and 1917-18 salary and commission £2,000, is the pre-war standard £200 or £2,000?*

(1) In practice, the machinery is treated as increased capital from the date on which it was acquired even though the purchase is made out of profits of the accounting period in which it is purchased.

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(2) The investments of £2,000 have to be excluded in arriving at capital, but the loan of £2,000 (which is or could be secured on the investments) should not be deducted as a liability. The trader could have omitted from the Balance Sheet the investments of £2,000 and the loan of £2,000 as being unconnected with the business because, if he had sold out the investments for £2,000 and placed that cash into the business, the same position would have been given. If the loan is treated as a liability, the investments should be treated as capital, as the loan is only possible by *using* the investments, so that, as the loan *is used* in the business, so must the investments be *used*.

(3) Paragraph 4 is badly drawn, but the practice is to take the *pre-war* remuneration as the standard and to treat all the capital as increased capital. This practice is firmly established and would not be dropped without a case in the Courts.

Conversion to Limited Liability.

B. and C. are in partnership and contemplate converting their business into a partnership. It is asked by "Roads"—

(1) *If the company could claim a succession and charge directors' fees; or*

(2) *If the company could claim to be treated as a new business and take a percentage on the capital at the commencement of the year and charge directors' fees.*

(1) The directors' fees will (a) have to be added back or (b) allowed and the standard reduced by the same figure under paragraph 5 of Part II of the Fourth Schedule to the 1915 Act. The latter is the correct legal course and is advantageous when Section 26 (4) of the 1917 Act applies by reason of the adjusted profits being less than £2,000.

(2) The company may claim under paragraphs 4 and 5 of Part II that the business be treated as new, when a percentage standard would apply, but the Revenue could, under Section 49 (1) of the 1916 Act, treat the company as a partnership and add back all the directors' remuneration. The percentage would then be that of a firm. If a percentage standard is taken it will be at the increased rate under Section 26 of the 1917 Act, viz. 9 for companies and 11 for others.

(3) It is not possible to say definitely until the Finance Bill becomes law, but in general it will merely be an increased income-tax.

Mines.

It is asked by "Treherbert" if a coal miner working in water can claim for extra wear and tear of clothing without a form signed by the colliery manager.

The relief can be claimed without any reference to the colliery manager. Rates of allowances have been fixed and can be obtained from the local Inspector of Taxes.

Queries and Replies.

(Correspondents who wish to make use of this column are requested to write their queries on one side of the paper only and to be as brief as possible. There is no need to enclose a covering letter if the communication is headed "Accountants' Journal, Queries and Replies column," and signed at the end with the name and address of the sender, which will not be published if the query is signed with a *nom de plume*.)

Investment of Reserve Fund.

"Sound Finance" asks "where is the Reserve Fund if the company goes into liquidation?" Your answer does not touch on this point. You speak of Reserve Fund and of Reserve Fund Account. Are these identical?

Again, at the close of your reply you say "The Reserve Fund has ceased to exist, although the specific investment may remain." Please explain why the use of the verbs "has" and "may."

It seems to me that if the Reserve had not been invested in outside securities, or there was a loss of £10,000 the next year, there would be, so to speak, a double loss, or a total loss of £20,000; on the other hand, if there had been an outside investment this is still available.

Reserve Fund and Reserve Fund Account are the same.

The specific investment may remain, although the Reserve Fund has ceased to exist—e.g. a company creates a Reserve Fund of £10,000 out of profits, and at the same time makes a specific investment in, say, War Loan of £10,000.

The Balance Sheet would be:—

Liabilities.					Assets.				
				£					£
Sundries	..	..	..	200,000	Sundries	..	..	..	200,000
Reserve Fund	..	..	..	10,000	War Loan	..	..	..	10,000
				<u>£210,000</u>					<u>£210,000</u>

Next year the company makes a loss of £20,000, wiping out the Reserve Fund.

The Balance Sheet then is:—

Liabilities.					Assets.				
				£					£
Sundries	..	..	..	200,000	Sundries	..	..	..	180,000
					War Loan	..	..	..	10,000
					Profit and Loss Account—				
					Loss	..	..	..	£20,000
					Less Reserve Fund			10,000	
				<u>£200,000</u>				10,000	
									<u>£200,000</u>

The Reserve Fund has disappeared and the War Loan is one of the ordinary assets of the company. The assets are, however, £190,000, whether the £10,000 be in War Loan or Stock-in-Trade.

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Chartered and Incorporated Accountants.

I should be greatly obliged if you would inform me whether a firm composed of partners who are either members of the Chartered Accountants' Institute or the Society of Incorporated Accountants and Auditors are entitled to sign the firm's name and immediately underneath state Chartered and Incorporated Accountants. Perhaps it may be better explained in the following example: A firm called J. Brown & Co. are auditors to a public company. The firm consists of two Chartered Accountants and two Incorporated Accountants. The Balance Sheet is signed as follows: "J. Brown & Co., Chartered and Incorporated Accountants, Auditors." Is it permissible or not? Personally, I see no objection, as the "firm" is composed of Chartered and Incorporated Accountants. The argument might be that, in order for a firm to sign as stated, each partner must be a member of both bodies. I feel that it is the firm signing, and the definition is a true one, as the firm is constituted by each.—"INTERESTED ONE."

In reply to "Interested One," if he refer to the bye-laws of the Institute he will see that a firm consisting of partners, all of whom are not Chartered Accountants, cannot so describe themselves.

We think possibly they could sign "J. Brown, Chartered Accountant, T. Jones, Incorporated Accountant, practising as J. Brown & Co."

To sign "J. Brown & Co.," Chartered and Incorporated Accountants, does not indicate which of the partners is a Chartered Accountant and which is an Incorporated Accountant, and may suggest that each is a member of the two bodies.

Brewery Prices and Net Profits.¹

I am anxious for an authoritative pronouncement on this matter, as I find it difficult to convince some of my friends that the error in the method of proceeding is fundamental.

Cost price per barrel of a certain beer	..	..	..	68/-
Average cost per barrel of the number of barrels sent out, all expenses	..	..	..	30/-
				<hr/> 98/-
Sale price	..	..	..	100/-
				<hr/> 2/-
				<hr/>
Cost price per barrel of another beer	..	..	..	114/-
Average cost per barrel of the number of barrels sent out, all expenses	..	..	..	30/-
				<hr/> 144/-
Sale price	..	..	..	156/-
				<hr/> 12/-
				<hr/>

Is this method right or wrong?—R. W. C.

Queries and Replies.

We do not quite understand the query raised by "R. W. C.," but presume that the point he wishes to make is that it is not correct to charge a barrel of beer, the prime cost of which is 68s., with oncost 30s., when a barrel with a prime cost of 114s., selling for 10s. more profit, only bears the same oncost per barrel.

Surely, however, the question is entirely one of fact.

If the increased cost in the second case is due entirely to the materials used, then, apart from any question of interest on the stocks carried, the oncost in manufacturing and selling might not be any more.

If, however, the process take longer, or different and more expensive plant is used, or the beer take longer to mature, thus occupying more storage room, the charge *might* be much greater.

It is entirely a question of allocation of expenditure based on facts, and those facts we have not before us.

Company with Two Banking Accounts.

Would you please give your opinion of a small limited liability company having two banking accounts. Is this course strictly legal? A small advantage is, if overdrawn in one bank, one will be able to make sure of wages in other banks. I am not clear on the point and shall be glad to have your opinion on the subject generally.—G. C. S.

So far as the legal position is concerned a limited company can, subject to its articles, have as many Bank Accounts as the directors consider desirable.

We do not quite follow the logic that if one account is overdrawn the other account can be operated upon for wages, unless it be that the Board find they can get more credit from two banks than from one. If such be the case it is to the interests of the company, although possibly *not* of the banks, to open as many accounts as possible.

Books of the Month.

BOOKKEEPING FOR COMPANY SECRETARIES. By L. R. DICKSEE, M.Cm., F.C.A. $8\frac{1}{2} \times 5\frac{1}{2}$, vi+210 pp. Sixth edition. 10s. 6d. n. This is a book *we* can recommend, either to the company secretary or the accountant student. About 100 pages at the end of the book are devoted to reprints of the examination papers of the Chartered Institute of Secretaries, and these will be found very useful by students for test purposes.

FRENCH COMPANY LAW (Sociétés Anonymes). A practical handbook for lawyers and business men. By PIERRE PELLERIN, Barrister-at-Law. $8\frac{1}{2} \times 5$, 160 pp. 7s. 6d. n.

1920-21 INCOME-TAX, EXCESS PROFITS DUTY, SUPER-TAX AND CORPORATION PROFITS TAX. Proposed new Rates, Abatements, Exemptions, and other alterations set out in the Budget. By CHARLES H. TOLLEY, A.C.I.S. 6 pp. (Paper cover). 6d. n.

[*Any of the publications noted in this column can be obtained from Gee & Co. (Publishers), Ltd., 14 Queen Victoria Street, E.C. 4, at the prices quoted.]

Legal Notes.

By Albert Crew, Barrister-at-Law.

An up-to-date knowledge of recent decisions in the Courts is of the greatest value to accountants and business men and to students reading for their examinations. In this column are noted the salient features of the leading cases decided during the preceding month.

Bankruptcy.

Landlord and Tenant.

Plaintiff let certain premises to the defendant by a lease which contained provisos for re-entry in case the lessee should become bankrupt, or if the rent should be in arrear for 21 days. In July 1918 the defendant was adjudicated bankrupt, and on January 21st 1919 two quarters rent were in arrear. On that date plaintiff served the defendant with a writ claiming possession on the ground of forfeiture for non-payment of rent, and claiming £77 10s. for the said rent. The defendant thereupon paid the £77 10s. and the costs under Section 212 of the Common Law Procedure Act, 1852, and the proceedings came to an end. On May 7th 1919 plaintiff brought the present proceedings, claiming possession of the premises on the ground of forfeiture by reason of the defendant's bankruptcy. It was held that, as the earlier proceedings were brought to recover possession as well as rent, the acceptance of the rent was not inferentially or directly an acknowledgment of the existence of the tenancy after the bankruptcy, and that that breach was still available as a ground of forfeiture. *Evans v. Enever* (1920, 36 T.L.R. 441).

Doctrine of Relation Back.

Certain furniture was transferred to the G. company in circumstances which made the transfer fraudulent and void, so as to constitute under Section 1 (b) of the Bankruptcy Act, 1914, an act of bankruptcy by the transferor. Afterwards the transferor committed another act of bankruptcy in respect of which a petition was presented within three months of the first act of bankruptcy, and a receiving order was made against him, and he was adjudicated a bankrupt. After the date of the receiving order the G. company sold the furniture to the C. company. The liquidator of the C. company sold it to M., who in turn sold it to a banking company, which retained possession of part of it and sold the remainder. The C. company, M., and the banking company were all *bona fide* purchasers without notice of the invalidity of the G. company's title. It was held that under Section 37 of the Bankruptcy Act, 1914, the title of the trustee in bankruptcy, by relation back, vested in him all the property of the bankrupt at the time of the transfer to the G. Company, and, since that transfer was void as an act of bankruptcy, no purchaser for value could obtain any rights under it, and the trustee was entitled to a declaration that the furniture still in the possession of the banking company, and the proceeds of the furniture sold by them, formed part of the property of the bankrupt. *In re Gunsborough* (1920, 36 T.L.R. 485).

Reputed Ownership.

The custom of hiring furniture which exists in the case of hotel proprietors, and is so notorious as to exclude the doctrine of reputed ownership in the event of the bankruptcy of the hotel proprietor, whether the particular furniture is hired or not, does not extend to furniture in the possession of traders generally, e.g. a wholesale grocer. *In re Tabor* (1920, 1 K.B. 808).

Legal Notes.

Companies.

Alteration of Articles.

A private company passed a special resolution to alter its articles by introducing a power enabling the company in general meeting to require any shareholder (other than a certain specified shareholder) to transfer his shares to such person or persons as the board should think fit at a fair value, such fair value to be determined from time to time by resolution passed at a board meeting. It was held that the power given to the majority of shareholders was not for the benefit of the company as a whole, and the new article was invalid. *Dafen Tinplate Co. v. Llanelly Steel Co.* (1920, 36 T.L.R. 428).

Reorganisation of Capital.

Section 41 of the Companies (Consolidation) Act, 1908, permits a consolidation of shares, followed by a subdivision of the shares resulting therefrom to be carried out by a single (special) resolution. *Re North Cheshire Brewery* (1920, S.J. 463).

Bonus Shares are Capital, and are, therefore, not Liable to Super-Tax.

A company had power in its articles to increase its capital and to distribute profits in the usual way, including power to distribute paid-up shares and to create reserve funds. The company, after carrying £10,000 to the reserve fund, and paying a dividend on the ordinary and preference shares, a bonus of 33⅓ per cent. was declared, such bonus to be satisfied by the distribution among the shareholders in the company credited as fully paid up. A shareholder was assessed super-tax in regard to his bonus shares, and it was held that as the bonus shares were capital and not income, that they were not liable to super-tax. *Inland Revenue Commissioners v. Blott* (1920, 149 L.T. 356).

Arbitration and Liquidator's Liability for Costs.

Where in arbitration proceedings the liquidator is in the position of defendant, and an award is made against the company, the costs of the reference and award ought not to be ordered to be paid by the liquidator personally with a right to reimbursement out of the company's assets, but should be ordered to be paid by the company. If, however, the liquidator applies for and obtains the statement of a special case, at the hearing of which he fails, he, as being then in the position of plaintiff, may be ordered to pay the costs of the hearing of the special case, with a right to be recouped out of the company's assets. *Van den Hurk v. Martens* (1920, 1 K.B. 850).

Contract.

Husband and Wife.

The plaintiff, a milliner, brought an action against a husband and wife jointly for goods supplied to wife. Judgment was given against both, and husband alone appealed. The judge set aside the judgment against the husband, and at the trial the Judge found there was no joint liability in the husband and wife, that the goods being *primâ facie* necessities for the wife, the husband *primâ facie* was the principal, and the wife the agent, and he held that the plaintiff had not, by the judgment against the wife, elected to treat her as principal, and was entitled to recover against the husband. It was held, on appeal, that as the remedy was alternative, the plaintiff, having signed judgment against the agent, could not afterwards recover judgment against the principal in respect of the same debt, and that, therefore, the husband was not liable. *Moore v. Flanagan* (1920, 1 K.B. 919).

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Statute of Frauds.

The defendant's agent signed for him as "vendor" a carbon copy of a typewritten "contract" not containing any purchaser's name, by which "I agree to purchase" premises described at a sum named, to pay a deposit, to complete within a limited time, and in default pay interest on the balance of purchase-money, the vendor to show a good title. The plaintiff had signed the original, of which the carbon was a duplicate, and given a cheque for the deposit, a receipt signed by the defendant's agent being put on the carbon copy. In an action for specific performance it was held that by incorporating the cheque into the carbon document, or by connecting the carbon with its original, or by identifying the person who paid the deposit with the plaintiff there was a sufficient memorandum within the Statute of Frauds. *Stokes v. Whicher* (1920, 1 Ch. 411).

Limitation of Amount of Freight Payable for Freight by Foreign Law.

A contract is, in general, invalid in so far as the performance of it is illegal by the law of the country where the contract is to be performed. Where, therefore, a contract was made by charter party between British charterers and Spanish shipowners for the carriage of a cargo of jute from Calcutta to Bombay at £50 a ton, half to be paid on shipment, and the balance on delivery, and before the arrival of the vessel a decree of the Spanish Government made it an offence either to pay or to receive above certain maximum rates, which in the case of jute were much below £50 a ton; it was held that the charterer's obligation was one to be performed in Spain, and was duly performed by the tendering of the maximum freight permitted by Spanish law by the Spanish receivers of the cargo, and that the shipowners could not recover the difference between such maximum and the freight contracted to be paid by suing in the English Court. *Sota and Aznar v. Ralti* (1920, 64 S.J. 462).

Written Notice of Assignment.

The fact that a debtor cannot read nor write does not get rid of the necessity imposed by Section 25 (6) of the Judicature Act, 1873, to give the debtor written notice of the assignment in order to transfer the legal right to the debt. *Hockley v. Goldstein* (1920, 36 T.L.R. 539).

Crown Prerogative.

Right of Crown to Take Possession of Land and Buildings without Compensation.

The respondents, the De Keyser's Royal Hotel Co. Ltd., by petition of right, claimed a declaration that they were entitled to the payment of an annual rent so long as their premises were occupied by the War Office. The Crown said they were under no legal obligation to pay anything, but that the matter should go before the Defence of the Realm Losses Commission to determine what direct money loss the company had sustained, and that such sum would be paid as an act of grace. The House of Lords held that while the taking of land and buildings for war purposes is justified, possibly under the prerogative, but at any rate under the Defence of the Realm Consolidation Act, 1914, and Regulation 2 made thereunder, the question of compensation is not to be dealt with as a matter of grace on the part of the Crown, but is regulated by the Defence Act, 1842, and the Acts amending it. *Attorney-General v. De Keyser's Royal Hotel Co.* (1920, 64 S.J. 492).

Insurance.

Housebreaking.

Where by a policy of insurance the contents of premises were insured against loss by housebreaking which contained a clause "warranted that the said premises are always occupied"; it was held that a temporary absence of some hours was no breach of the warranty, and that the warranty did not mean that the premises should at no time be left un-

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attended, but that they should be continuously occupied as a residence. *Simmonds v. Cockell* (1920, 1 K.B. 843).

Theft.

Plaintiffs took out a policy of insurance against losses which they might discover that they had sustained by reason of the theft of securities in their custody whilst in transit in their own hands or in the hands of the employees between any houses situate within 100 miles of Philadelphia . . . such risk or transit to commence on every security or parcel of securities from the moment of the person into whose hands the same may be delivered on behalf of the said assured receiving the same, and to continue until the delivery thereof at destination. An employee of the plaintiffs by fraud and forgery obtained from the plaintiffs' vault clerk securities belonging to plaintiffs' customers, and misappropriated them. The plaintiffs, having made good the loss to their customers, brought an action on the policy. It was held that as there was no evidence either that the securities, while in the hands of persons for whom the plaintiffs were responsible, were ever in transit to some place outside the plaintiffs' premises, or that the vault clerk had any reason to suppose that the securities were to be sent outside the premises rather than handed over to customers in the waiting room, the action failed. *Pennsylvania Company for Insurances v. Mumford* (1920, 36 T.L.R. 423).

Landlord and Tenant.

Notice to Quit.

An agreement by which premises were let provided that the tenancy shall commence on September 1st 1918, to continue from year to year until determined by three calendar months' notice to quit, which may be given on either side and at any time. On April 2nd 1919 the plaintiff gave three months' notice to quit. It was held that the agreement created a yearly tenancy, and that the notice was bad in that it purported to determine the tenancy before the end of the year. *Mayo v. Joyce* (1920, 1 K.B. 824).

Master and Servant.

Liability for Act of Servant.

The plaintiff employed the defendant to carry their goods in vans, and the defendant's driver stole the goods. The defendant had not been guilty of any negligence in selecting the driver. It was held that the principle governing the case was that when a servant committed such a crime for his own benefit he thereby severed his connection with his employer, and the employer was not contractually responsible in the absence of personal negligence, unless he had held out the servant as having authority to act. This case distinguishes *Lloyd v. Grace Smith* (1912, A.C. 716), where the fraudulent servant was put into a position of authority by the employer, and the person defrauded brought into contact with the servant by the act and on the representation of the employer, and the fraud committed by the servant acting within the bounds of that representation. *Mintz v. Silverton* (1920, 36 T.L.R. 399).

Accident on Employers' Premises during Dinner Hour.

A machinist was employed in works where all the employees were required to leave the works during the dinner hour. The employers had on their premises a canteen, and to reach it the employees had to go into the street and re-enter the works by another door and ascend a staircase. The employees were invited to use the canteen, but they were not obliged to do so. The machinist, whilst descending the staircase after having her dinner, slipped and broke her ankle, and it was held in the House of Lords that

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in the circumstances the accident arose out of, and in the course of, her employment, and was, therefore, entitled to compensation. *Armstrong, Whitworth & Co. v. Redford* (1920, 36 T.L.R. 451).

Negligence.

Starting Train with a Jerk without Warning.

The plaintiff entered a carriage of an electric train at one end, and when he was turning from the vestibule to go to a seat, the train was started suddenly without warning. He was thrown off his balance, and to save himself put out his hand, which was caught by the sliding door and crushed, the door being shut by the momentum of the train in starting. In an action for negligence, in starting the train without warning, a jury awarded the plaintiff £35 and the damages, and the Court of Appeal held that there being evidence on which the jury, in the particular circumstances of this case, could infer negligence, their verdict could not be disturbed. *Delaney v. Metropolitan Railway* (1920, S.J. 477).

Wills and Executors.

Construction.

Gift to such persons as on failure of preceding trusts shall be "my next of kin, and entitled to my personal estate under the statutes of distribution." The question for decision was whether the next of kin referred to in the ultimate trust were to be ascertained at the date of the testator's death, or at the period of distribution, which, in the events which happened, was the date of the death of the last surviving daughter. The House of Lords held that upon the true construction of the will the next of kin therein designated to take the residue of the personal estate on the failure of the trusts thereby declared in favour of the testator's daughters and their children must, in the events which had happened, be ascertained as at the death of the surviving daughter. *Hutchinson v. National Refugees for Homeless, &c. Children* (1920, W.N. 180).

Gift to Institutions.

A testatrix, who died in 1919, left her foreign property to "two institutions, one for sailors, the other for soldiers, which I hope to be able to name myself, if not, then by my executors." It was held that the gift ought to be construed not as a gift to two institutions which might or might not be charitable, but as a gift to two charitable institutions of the kind specified, and therefore was not too vague, but was a good charitable gift. *In re Smith* (1920, 36 T.L.R. 416).

Soldier's Will.

An officer who had made a will dealing with his real and personal estate wrote, while he was a prisoner of war, a letter to his wife containing instructions to his solicitor for alterations in his testamentary dispositions as regards both real and personal estate. He died before the passing of the Wills (Soldiers and Sailors) Act, 1918, which provided for the validity of testamentary dispositions of real property by soldiers and sailors without attestation, and before it was possible to carry out the alterations and prepare a codicil for execution. It was held that as death took place before the Act of 1918 (*supra*), the document could not be treated as a will of realty, and ought not to be admitted to probate, as the gifts of personalty and of realty were largely dependent on each other, and to give effect to the document as a codicil as regards the personalty alone would be to defeat the testator's intentions. *In re Godman* (1920, 36 T.L.R. 434).

Students' Society Notes.

South Wales and Monmouthshire Chartered Accountants Students' Society.

It was unfortunate that, within two years of the birth of this Society, the war should have intervened, and the five years of inactivity have necessitated an almost fresh start. Thanks, however, to the loyalty of the few remaining old members, and the keenness of the newly-articled men, the Winter Session just closing has been most encouraging, auguring well for the future of the Society. The Saturday morning Tuition Classes in Accountancy have been well attended, and the success of so many students in the November Examinations goes to show that, coupled with hard individual work, these classes may be of great value. The opportunity for discussion afforded by these classes is one of the greatest factors in their usefulness. (But why *are* accountant students so afraid of their own voices?) The ordinary monthly meetings of the Society have, on the whole, been well attended. Mr. A. E. Cutforth, F.C.A., is sure of a welcome, and his lecture on "Amalgamation Schemes" was more than interesting, as was Mr. Miles Taylor's paper on "Costing," a subject on which he can speak with authority. Mr. W. R. Gresty, F.C.A., one of our members, spoke to us on "Shipping Accounts" on another occasion—what more appropriate subject for Cardiff students! A "Ten Minutes' Paper" competition and the ever-popular Mock Shareholders' Meeting completed the programme. The annual meeting will be held on 8th June. It is quite certain that, given enthusiasm on the part of our younger members, the coming session will be a most successful one.

Sheffield Chartered Accountants Students' Society.

The Society closed its Spring Session 1920 at the end of April, during which month some excellent lectures were delivered, which are summarised below:—

April 7th.—Mr. F. C. Young gave a talk on the "Ascertainment of Capital for Excess Profits Duty Purposes." This meeting was an informal one at the request of the lecturer, whose remarks were a continuance of an address given at an Accountancy Class on a previous Saturday morning. Several members questioned the advisability of continuing to study this subject, but no doubt their hopes have been blighted, and their fears increased by the recent Budget.

April 14th.—The students were favoured with an address by Mr. G. H. Knighton, A.C.A., a former member of this Society and a Final Honours man. His subject was "The Examinations of the Institute," of which subject Mr. Knighton is naturally a capable exponent. The lecturer advocated the use of mnemonics, of which he gave some interesting examples, and also impressed his hearers with the importance of a fixed method whilst "swotting."

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April 21st was a very good meeting, and there was an exceptionally large attendance to welcome Mr. D. F. de l'Hoste Ranking, M.A., LL.D., who is always a favourite with accountant students. In his usual breezy and inimitable style he disposed of many difficult points in "The Law Relating to Executors and Administrators." The manuscript of this lecture has been sent to the *Journal* for intended publication. The lecturer invited the members to ask questions on any legal subject, full advantage being taken of this opportunity.

April 28 was the date of the concluding lecture, a paper being given by Mr. E. Furnival Jones, F.C.A., on "The Value and Limitations of System," which he preferred to name the "Value of Red Tape." Mr. Jones dealt with the subject from a very general and common-sense point of view, and enlivened it by varied witticisms much appreciated by the students.

* We take this opportunity of thanking all gentlemen who have presided at our meetings during the last two sessions, their kindness being much appreciated by all members. The Committee urge all members to support the Society by continuing to attend the Examination Preparation Classes, if only for their own personal advancement.

We wish every success to all our students who have entered for the May examinations, and look forward to seeing a Sheffielder again in the Honours list.

We beg to point out that the rumour that the title of the favourite song of the above candidates is "Ora Pro Nobis" (Pray for us) is not true.

Leicester Chartered Accountants Students' Society.

The annual general meeting will be held on June 30th for the election of officers and Committee and the arrangement of next session's programme. Will all members and articulated clerks in the Leicester district make a point of attending? It is hoped to greatly increase the scope of the Society's activities, and this can only be done if the Committee have the support of a large membership. The chair will be taken at 6.30 at the Society's room in the Trade Protection Society's building, No. 2 New Street.

Nottingham Chartered Accountants Students' Society.

The fifteenth annual meeting of the Society was held at the People's Hall, Heathcote Street, Nottingham, on April 24th 1920, Mr. Walter Gath, F.C.A., Vice-President, in the chair.

The Report and Accounts were read and adopted, and the following officers were elected for 1920-21:—President, Walter Gath, F.C.A.; Vice-President, Robert Rhodes, F.C.A.; Chairman of Committee, S. E. Towers; General Committee, A. F. Whitt, F. B. Collingwood, A. E. Reeve, B. H. Brewill, H. A. Derbyshire, H. White, J. A. B. Hamilton; Honorary Treasurer, J. B. Burnie, c/o Messrs. Derbyshire Bros., Bentinck Buildings, Wheeler Gate, Nottingham; Honorary Librarian, W. B. Cullen; Assistant Honorary Librarian, L. G. Webb; Representatives on the Tuition Scheme

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Committee, J. B. Burnie, C. C. Forrest, and C. Parker; Representatives on the Union of Chartered Accountant Student Societies, Principal member, Stanley Blythen, F.C.A., lecture secretary, C. Parker; Honorary Secretary, A. B. Harwood, c/o Messrs. Leman, Hill & Hilton, St. Peter's Church Walk, Nottingham; Honorary Lecture Secretary, C. Parker, c/o Mellors, Basden & Mellors, 1 King John's Chambers, Bridlesmith Gate, Nottingham; Society's Reporter for Messrs. Gee & Co., Editors of *The Accountant and Journal*, F. B. Collingwood, c/o Messrs. Leman, Hill & Hilton, St. Peter's Church Walk, Nottingham; Debating Society Committee, C. R. Sands (Chairman), A. H. Fitzpatrick, A.C.A., E. O. Gray, C. C. Forrest, F. B. Collingwood, J. A. B. Hamilton, C. W. H. Sergeant; Representative on the Advisory Board of Economics and Commerce of the Nottingham University College, Stanley Blythen, F.C.A.; Honorary Auditors, H. G. Ellis, A.C.A., and A. C. Waterfield.

A vote of thanks to the retiring officers was proposed by Mr. S. E. Towers and seconded by Mr. F. B. Collingwood, and a similar vote of thanks was proposed by Mr. S. Blythen, F.C.A., and seconded by Mr. N. P. Truman, to Alderman R. Mellors, F.C.A., who was the retiring President.

A vote of thanks to the Chairman on the motion of Mr. R. G. Cairns terminated the proceedings.

Manchester Chartered Accountants Students' Society.

The Annual General Meeting was held at the Chartered Accountants' Hall, 60 Spring Gardens, Manchester, on 19th May 1920.

Present:—Mr. H. S. Ferguson, F.C.A. (President, in the chair), G. P. Taylor, F.C.A. (Hon. Secretary), R. H. E. Wilkinson, A.C.A., Major E. Wigley, M.C., and about 12 ordinary members.

The Report and Accounts were adopted.

The following officers were elected:—

President.—Mr. H. S. Ferguson, F.C.A.

Vice-President.—Mr. J. Bell, F.C.A.

Committee.—Messrs. E. T. Chesworth, A.C.A., H. E. Evans, A.C.A., J. A. Porter, A.C.A., A. L. Taylor, G. P. Taylor, F.C.A., L. Taylor.

Auditors.—Messrs. E. Messenger, A.C.A., and R. Marsland.

Votes of thanks were accorded to the President, Vice-President, Committee, retiring officers and Auditors for their services during the past year.

Monthly Calendar.

June 3rd, Thursday.—EFFICIENCY CLUB.—Lecture: "The Story of Trade Guilds," by Mrs. Baines, at the Central Hall, Westminster.

June 14th, Monday.—LONDON CHARTERED ACCOUNTANT STUDENTS SOCIETY.—Intermediate and Final Coaching Classes begin at the Hall of the Institute, Moorgate Place, London, E.C., 5.30 p.m.

June 22nd, Tuesday.—EFFICIENCY CLUB.—Members Night. "The Story of the Efficiency Club's First Year," at Stewarts, 50 Old Bond Street, W.

June 30th, Wednesday.—LEICESTER CHARTERED ACCOUNTANTS STUDENTS' SOCIETY.—Annual Meeting, at 2 New Street, Leicester, 6.30 p.m.

National Guild of Accountants' Clerks.

A general Council meeting was held at the offices of the Guild on May 8th, attended by Messrs. K. Ball, A.C.A. (London), C. Brittain (Manchester), T. Croft, A.L.A.A. (Manchester), W. J. H. Greenham (Bristol), J. F. Kirby, A.S.A.A. (London), T. J. Maginn (Liverpool), and H. R. Watling (Bristol).

The Birmingham representative (Mr. O. V. Tye) was unavoidably absent, as also were Messrs. E. V. W. Puncker, F.L.A.A., and H. E. Seed, A.S.A.A. (London).

The Branch reports and recommendations were considered with a view to the preparation of a national programme, which has been drawn up as far as possible, and includes the establishment of a "Whitley Council" for the profession and payment of clerks according to their grade. It has been said by the President of the Institute of Chartered Accountants that the procedure of a "Whitley Council" is not applicable to the profession, that any attempt at grading clerks is practically impossible, and that any effort on the part of an outside authority to raise fees as between members in practice and their clients could only be fruitless.

The Council of the Guild claims that a "Whitley Council" is practicable, and that grading of clerks is at the present time exercised throughout the profession, and the Council is resolved to insist upon the proper grading of clerks and payment according to grade.

If the employers decline to meet the clerks' representatives by means of a "Whitley Council," other means will be resorted to.

Reports from all parts of the country were laid before the Guild Council, and nowhere is the average accountants' clerk paid a fair wage to-day in view of the enormous increase in the cost of living. Figures showing the earning capacity of a senior and a junior clerk working together were submitted with the total of the salaries paid in several ascertained cases, and the claim of the employer that "he cannot afford to pay more" was *not* borne out. If an employer is unable to pay a fair living wage he should either retire from business or find a means of increasing his professional fees.

The Guild advocates an all-round increase of fees and salaries by united action, and thus to satisfy the present widespread dissatisfaction. Failing the establishment of a Whitley Council, the Council of the Guild is determined to obtain its just demands by other means.

It was unanimously decided to extend membership of the Guild to lady accountants' clerks, and to charge for all members an entrance fee of 5s, in addition to an annual subscription of 12s. for members over 21 years of age, and 6s. for those of or under 21 years of age.

The Council of the Guild is a provisional one.

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The Money Market.—I.

The Influences of Government Borrowings on the Money Market.

By J. H. McCall, F.S.A.A.

The student who wishes to read and understand the money article in the morning paper will have some preliminary difficulties to overcome. He will find that the writers of newspaper articles have the knack of assuming that all the technical phrases which they use are commonly understood. There is no subject more commonly misunderstood than that which deals with the money market. To read the money article intelligently it is necessary to know what is meant exactly by the money market, and to appreciate the many financial operations which affect the market. It is to deal with these difficulties, and to give the student the necessary enlightenment, that Mr. J. H. McCall, the Borough Accountant of Croydon, has written a series of articles, the first of which we print this month.

The Money Market.

A market is a place which is used for the buying and selling of commodities. It is doubtful whether money can be classed as a commodity, but, like all commodities, it can be bought and sold, and it is subject to the same conditions as to the constancy of prices and the law of supply and demand. The money market is generally understood to be grouped round the Bank of England, where the borrowing or the lending of money is operated upon by the Bankers, Issuing Houses, Discount Houses, Bill Brokers, the Stock Exchange, Insurance Companies, Financial Houses, and last, but not least, the British Government.

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Dear and Cheap Money.

This market is subject to all the influences of any other market. If borrowers are plentiful, then money is dear. If, on the other hand, there is a "slump," then money is cheap. The cheapness or otherwise of money is reflected in the rates of interest at which it can be borrowed. As the rate of interest is subject to various modifications, it is generally reduced to another simple term, which is called the "yield."

For instance, if I invested £100 in the purchase of 6 per cent. War Stock at par, the yield would be 6 per cent., subject, of course, to income-tax. But if I could purchase the same stock at 95, i.e. at the rate of £95 for every £100 nominal value, the investment of my £100 would obtain for me approximately £105 $\frac{1}{4}$ worth of stock, which would give me a yield of nearly 6 $\frac{1}{2}$ per cent.

There are various influences which materially affect the ebb and flow of money quite apart from the law of supply and demand. The flow of money can be, and is, regulated somewhat like the speed of a motor-car. By the manipulation of the change speed lever, the speed of the car can be regulated, subject, of course, to the capacity of the motor. In the money market, the lever which artificially regulates the flow of money is the bank rate, manipulated by the Bank of England, who, in its turn, is powerfully influenced by the Government.

Government Borrowings.

We will leave further explanations of the operations on the Money Market, and consider exactly the relationship of the British Government to the Money Market. In the first place, it has been since the war the biggest borrower on the market. Huge sums of money were necessary to carry on the war, and this money was obtained from the market. But the ability of the Government to borrow depended upon its power to prevent competition, i.e. it refused to sanction the issue of stocks or shares. It seems astonishing that the Government, having shut the door of the market to other customers, should have offered such a high rate of interest.

It will now be interesting to see how it is that the Government becomes a borrower. The Government, as we all know, spends huge sums of money in carrying on the business of government. It has power to impose taxes upon the people, either directly, as for instance "income-tax," or indirectly, as for instance "customs." It is necessary at times for it to borrow money to supplement the revenue.

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Funded Debts.

Debts of the Government which are permanent, i.e. redeemable at some future date, are called Funded Debts. The word funded no doubt has reference to the fact that when a debt is repayable at some fixed future date, the provision for its repayment is made by way of contributions to a Sinking Fund.

Floating Debts.

The moneys which are borrowed for a short period are called Floating or Unfunded Debts. These temporary borrowings are resorted to for the purpose of meeting the expenditure of the year in anticipation of revenue, or to finance some scheme which it is considered advisable to charge to Revenue as soon as possible.

The funded debt of the Government consists of Consols, War Loan, Funding Loan, Victory Bonds National War Bonds, &c. A great part of this funded debt of the Government was raised upon the market during the war, when market conditions were unusual and abnormal, and which, let us hope, will never recur.

The floating debt of the Government consists of Advances, Treasury Bills, and Exchequer Bonds. The Government will continue to borrow on the market in these ways. We will consider each matter separately.

Advances.—When the Government finds that the money required for supply services is not coming in fast enough from the Revenue, it enters into an agreement with the Bank of England for an *advance* for the current quarter at a fixed rate of interest.

Treasury Bills.—The second method adopted by the Government for raising money temporarily is by the borrowing on the security of Treasury Bills. These are nothing more or less than ordinary Bills of Exchange. These bills are placed upon the market, and people are asked to tender for them—i.e. to state what price they are willing to pay for them, the best tenders being accepted. The bills which may be renewable three months or six months hence, are not only issued as a means of obtaining money for temporary purposes, but by the process of renewing them from time to time, they have become part of the National Debt, owing to their popularity on the market.

Exchequer Bonds.—When the Government decides upon some expenditure which cannot be met out of revenue at once, and which, although it ought to be repaid within a certain time, is not important

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enough to swell the permanent fixed debt, the issue of Exchequer Bonds for a term of years is found to be the convenient way of finding the money. It differs from a Treasury Bill as to the period at which it becomes repayable, and it bears interest which is payable quarterly.

There is another method of raising money for credit by the Government, which is referred to sometimes as "resorting to the printing press." This is the method adopted since the war by the Government to obtain credits by the issue to banks through the Bank of England of the familiar Treasury £1 and 10s. notes. The curious part about a Treasury Note is that it is a method of obtaining money by the Government without the payment of interest.

The Bank of England acts as the agent for the Government in the matter of raising money. First we find the most powerful influence brought to bear upon the Bank of England, who, in its turn, not only influences the market by the mere operation of making large demands from time to time, but in its capacity as a clearing house for all other banks is able to influence the money market by the manipulation of that artificial device known as the *Bank Rate*.

At the present time the floating debt of the Government dominates the whole monetary situation, and in consequence of this the money articles in the morning papers will be saturated with references to the funded and unfunded debts of the Government, and its effect upon the Money Market generally.

In our next article we will consider how the market is manipulated, more especially in the interests of the Government

A Company Secretary's Duties—II.

By W. H. Fox.

(Author of "The Company Secretary.")

This article is the second of a series dealing with the ordinary duties of a Secretary, specially written for the "Accountants' Journal" by an accountant of great experience in this work. Each article will be complete in itself and the series will form a noteworthy addition to the literature of the subject.

Proceedings of Directors—Board Minutes and General Meeting Minutes.

The powers and duties of directors are defined in Sections 71 to 75 of the Companies Act, 1908, and in Sections 71 to 75 of Table A, being the First Schedule of the Act and containing regulations for the management of a company limited by shares.

The business of the company shall be managed by the directors, who may pay the formation expenses, which would naturally be the first matter to attend to after the allotment of shares. The directors may exercise all the powers of the company except those which are required to be exercised by the company in general meeting. They may appoint one of their number to be managing director and may remunerate him, at such remuneration as they think fit, by way of salary or commission or participation in profits.

* The directors may not borrow or raise money for the company at any one time exceeding the amount of the issued share capital without the sanction of a general meeting. They must comply with the provisions of the Companies Act, and in particular with the provisions as to the registration of mortgages, the keeping of the Register of Directors, and of the filing of same; the filing of the annual list of members and of any change in the share capital, and of any special resolutions passed.

The directors shall cause minutes to be made, in books provided for the purpose, of appointment of officers, of the names of the directors present at any board or committee meeting, and of all resolutions and proceedings at meetings of the company and of the directors or committees. Every director present at a board or committee meeting shall sign his name in the Directors' Attendance Book.

A general outline of the proceedings of the directors is contained in Sections 87 to 94 of Table A.

These regulations as to the proceedings of the directors may be summarised as follows:—

The directors may meet together for the despatch of business, adjourn and otherwise regulate their meetings as they think fit. Questions arising at any meeting shall be decided by a majority of

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votes, the chairman having a second or casting vote in a case of an equality of votes.

A director may, and the secretary on the requisition of a director shall, at any time summon meetings of the directors. A quorum necessary for the transaction of business may be fixed by the directors.

The continuing directors may act, notwithstanding any vacancy in their body, but in the case of their number being reduced below regulation number, the continuing directors may only act for the purpose of electing to the board a sufficient number to make a quorum.

The directors may elect a chairman of their meetings for a fixed period or otherwise, and if the chairman is not present within five minutes after the time appointed for holding the meeting, those present may elect a member to preside.

The directors may delegate any of their powers to committees consisting of members of their own body, and such committees may appoint their own chairman and may meet and adjourn as they think proper, questions arising being determined by a majority of votes, with a casting vote for the chairman as in the case of board meetings.

All acts done by any meetings of the directors or a committee of the same or by any person acting as a director shall be valid, notwithstanding any defect in their appointment afterwards discovered.

Under Section 10 of the Act the regulations contained in Table A will be the regulations of the company. Companies limited by shares may file special articles, subject to the approval of the Registrar, but in practice it is more convenient in the first place to adopt Table A, modifying its provisions in a few particulars. In the case of a company limited by guarantee, or unlimited, special articles of association must be registered.

In the previous article on the formation and registration of the company, emphasis was specially placed on the proceedings in connection with companies with share capital, as by far the greater number of companies that are registered are of this class. Companies limited by *guarantee* may, in addition, be specially mentioned. Companies of this description formed for certain purposes, especially in the case of undertakings such as Marine Insurance Associations trading for mutual advantage, may be registered with advantage for the purpose of defining the rights of the members as amongst themselves.

The memorandum of association of a company *limited by guarantee* provides in the event of liquidation for the payment of a certain fixed sum (usually of nominal amount) by each member who may be on the register at the date of the liquidation or has been so registered during the previous twelve months. The Board of Trade has power to permit the omission of the word "Limited" in the case of such companies not formed for purposes of gain.

Assuming that the first meeting of the directors has been held and the preliminaries in connection with the formation of the company have been dealt with, including the allotment of shares, it will be the

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duty of the secretary to prepare the Agenda Sheet for the next meeting of the board, the headings of which will be as follows :—

THE "MERRIE ENGLAND" CO., LTD.

Friday, 25th June 1920.

Agenda for board meeting to be held at No. 14 Queen Victoria Street, London, E.C., at 2 p.m.

Directors present : Lord A. B., Mr. C. D., Mr. E. F. Mr. G. H. (Secretary), Mr. I. J. (Solicitor), and officers and others in attendance.

1. Read minutes of the previous meeting.
2. Produce bank pass book.
3. Report allotment of 200,000 A shares.
4. Report obtaining the certificate entitling the company to commence business (dated 20th June 1920).
5. Produce engrossment of purchase agreement in duplicate.
6. Appoint Finance Committee.
7. Fix date of Board meetings.

It will be the secretary's duty to keep a note of all matters which are to be placed on the Board Agenda Sheet, and the chairman or any member of the board is entitled to instruct the secretary to put down any question for discussion. In addition to sending notice to the directors a few days before the date of the meeting, it is a great convenience for them to receive prior to the meeting a copy of the Agenda Sheet in order that they may know what matters are proposed to be dealt with.

The following items mentioned above on the Agenda are merely a few of those which, in practice, the secretary will have to deal with. The board minutes in respect of the foregoing Agenda would be in the following form :—

Friday, 25th June 1920.

The second meeting of the Board of Directors was held at the registered offices of the company, No. 14 Queen Victoria Street, in the City of London, on the above date at 2 p.m.

Present.—Lord A. B. (Chairman), Mr. C. D., Mr. E. F.

In attendance.—Mr. G. H. (Secretary), Mr. I. J. (Solicitor)

[NOTE.—The minutes are numbered consecutively for convenience of reference, the numbers being continued from the previous meeting.]

31. The minutes of the previous meeting were read and signed by the chairman as a correct record of the proceedings.

32. The bank pass book was produced, showing a balance to the credit of the company's current account at Martin's Bank, Ltd., of £10,000 on current account and £10,000 on deposit account.

33. The secretary reported that the allotment letters, Nos. 1-1783 for 200,000 "A" shares of £1 each had been sent out, and the allotments of the same as appearing in the Application Book were duly approved and confirmed. The secretary was instructed to prepare share certificates in respect of such shares so allotted to be ready for signature and sealing at the next board meeting.

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34. The secretary reported that he had made the necessary declaration under Section 87 of the Companies Act of 1908, and the Registrar of Joint Stock Companies had issued the certificate entitling the company to commence business. The same was produced dated the 20th June 1920.

35. Resolved, that the seal of the company be affixed to the agreement in duplicate, with Mr. James Graham, the vendor, and that the same be handed to the solicitors for stamping and filing.

36. Resolved, that Lord A. B., Mr. C. D., and Mr. E. F. be appointed a Finance Committee, and that the committee do report monthly to the board.

37. Resolved, that board meetings be held on the first Thursday in every month at 2 p.m.

There will be many other matters for the secretary to attend to, but it would be useless to attempt to provide an exhaustive list of these. It may, however, be useful to give the form in which the Finance Committee's report, mentioned in the minutes above, should appear.

The first report of the Finance Committee to the 30th June 1920 :
To the Directors of

THE "MERRIE ENGLAND" CO., LTD.

The Finance Committee beg to report that they have examined the company's accounts to the 30th June 1920, on which date the financial position was as follows :—

Receipts.

	£	s	d
Share capital, 5s. per share on 200,000 "A" shares of £1 each, received to date	£50,000	0	0

Payments.

	£	s	d
Paid on account of purchase of Freehold Property ..	10,000	0	0
Paid on account of preliminary expenses	5,000	0	0
Placed on deposit with the Securities Bank, Ltd. ..	20,000	0	0
Balance on Current Account	15,000	0	0
	<u>£50,000</u>	<u>0</u>	<u>0</u>

The committee recommend that the sum of £15,000 be invested in 5 per cent. Treasury Bills, and that the funds for this purpose be provided for by the withdrawal of the necessary amount from the Deposit Account.

Dated this 1st day of July 1920.

(Signed) A. B.
 C. D.
 E. F.

Members of the Finance
Committee.

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The business in connection with the carrying on of board meetings is naturally of a less formal character than the proceedings relative to general meetings of shareholders, which will now be dealt with.

The first general meeting is called the "statutory meeting" and must be held at a period not less than one month and not more than three months after the date of the certificate entitling the company to commence business, as provided by Section 65 of the 1908 Act.

Seven days' notice of the meeting must be given to all the shareholders, and the directors must also forward with such notice a copy of the Statutory Report, certified by not less than two members of the board. The following information must be given in the report:

- (a) The total number of shares allotted either for cash or otherwise;
- (b) the total amount of cash received in respect of the shares allotted;
- (c) an abstract of the receipts of the company on capital account made up to a date within seven days of the date of the report, with particulars of the payments made on capital account and the balance remaining in hand. Also an estimate of the preliminary expenses;
- (d) the names and addresses of the directors, auditors, managers, and secretary;
- (e) the particulars of any contract which it is proposed to modify must be stated in the report.

A copy of the statutory report should forthwith be filed with the Registrar of Joint Stock Companies.

At the holding of the Statutory Meeting there must be produced for inspection a complete list of the members of the company, and those present shall be at liberty to discuss any matter relating to the formation of the company or arising out of the statutory report, whether previous notice has been given or not, but no resolutions, on matters of which notice has not been given, may be passed.

The provisions of Section 65 as to the forwarding and filing of the statutory report shall not apply to a *private* company.

Default in filing the statutory report or in holding a statutory meeting may be made the grounds for a petition to wind up the company under the Court, so that it is desirable that proper attention should be given to the matter by the secretary at the earliest date at which it is possible to hold the meeting.

The next kind of shareholders' meeting is the ordinary Annual General Meeting, and the arrangements in connection with this will occupy a considerable amount of the secretary's time and attention.

This meeting will only deal with the report and accounts of the directors, which will be submitted to the shareholders for approval and included in the report will be notice as to the payment of dividends and the re-election of the retiring directors and auditors.

The secretary will prepare a full agenda sheet for the use of the chairman. For his own use at the meeting the secretary will keep a copy and mark on it the decisions arrived at as each item is dealt with, and he will then be able to remind the chairman of any point omitted in conducting the business of the meeting.

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The agenda sheet for the general meeting is as follows :—

THE "MERRIE ENGLAND" CO., LTD.

CHAIRMAN'S AGENDA SHEET.

First Ordinary Annual General Meeting, Friday, 25th June 1920.

1. The secretary to read the notice convening the meeting as follows :

Notice is hereby given that the first Ordinary General Meeting of the members of the "Merrie England" Co., Ltd., will be held at the Institute of Chartered Accountants Hall, Moorgate Place, London, E.C., on Friday, the 25th June 1920, at 2 p.m., to receive and approve the directors' report and accounts, to elect directors and auditors, to declare a dividend, and to transact the ordinary business of the company.

Dated the 17th day of June 1920.

(By Order of the Board.)

G. H.
Secretary.

2. The secretary to read the Auditors' Report (attached to the Balance Sheet of the company, dated the 31st March 1920), as follows :—

AUDITORS' CERTIFICATE AND REPORT.

To the Shareholders of the "Merrie England" Co., Ltd.

We hereby certify that in accordance with the terms of Section 113 of the Companies Consolidation Act, 1908, we have obtained all the information and explanations we have required, and we beg to report that in our opinion the above Balance Sheet is properly drawn up so as to exhibit a true and correct view of the state of the affairs of the company, according to the best of our information and the explanations given to us and as shown by the books of the company.

31st March 1920.

K. & L., C.A.
Auditors.

3. The secretary to read the minutes of the previous general meeting or, if the meeting approves, such minutes to be taken as read.

4. The chairman to ask the meeting whether the report and accounts now submitted, printed copies of which have been sent to all the shareholders, shall be taken as read. (This is almost invariably agreed to.)

5. The chairman to make a statement as to the position of the company's affairs and conclude by moving the following resolution : " That the report of the directors produced together with the annexed statement of the company's accounts to the 31st March 1920, which have been duly audited, be received, approved, and adopted."

6. The chairman to call on Mr. C. D. to second the motion.

7. The chairman to invite discussion by shareholders.

8. The chairman to answer questions and deal with criticisms, put motion to the meeting, and declare the result.

9. The chairman to move, " That Mr. E. F., the director, retiring in accordance with the articles of association, be re-elected a director of the company."

10. The chairman to call on Mr. C. D. to second the motion.

11. Put motion to meeting and declare result.

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12. The chairman to move as follows: "That a dividend at the rate of 15 per cent. per annum be declared out of the net profits of the company for the twelve months ending the 31st March 1920 upon the 200,000 shares issued, in accordance with the calls paid up thereon at this date, such dividends to be paid on the 10th July 1920 to the shareholders appearing on the register of members at the date of this meeting."

13. The chairman to call upon Mr. C. D. to second the motion.

14. The chairman to put motion to the meeting and declare result.

15. A shareholder to move "That Messrs. K. & L., Chartered Accountants, be re-elected auditors of the company for the ensuing year at a remuneration for their services of one hundred guineas."

16. The motion be seconded by another shareholder.

17. The chairman to put the motion to the meeting and declare result.

18. The chairman to declare that the business of the meeting is ended, and if after he has made this declaration a shareholder should propose a vote of thanks to the chairman, directors, and the staff, he will suitably reply.

With reference to item No. 2 on the above agenda sheet as to the auditors' report, it may sometimes occur that the auditors wish to make special reference to particular points which it is undesirable should be brought to the general notice of the public, and in such case the auditors' report is put on a separate document, and a note to the effect that they have reported to the shareholders should be entered on the face of the accounts.

Any shareholder is entitled to a copy of the Balance Sheet and the auditors' report on paying at the rate of 6d. for every hundred words, each figure being taken as a word.

It is usual for the re-election of the auditors to be proposed by some independent shareholder at the general meeting. By Section 112 of the 1908 Act, however, no auditor other than a retiring auditor, is capable of being appointed at an annual general meeting, unless notice of the intention to propose a different auditor has been given by a shareholder not less than fourteen days before the annual meeting, so that it is now immaterial whether a retiring auditor is re-elected or not.

In the specimen agenda paper above given, the question of amendments to resolutions before the meeting proposed by shareholders has not been dealt with. Any shareholder moving an amendment at a general meeting must be requested to put his motion in writing, so that there may be no doubt as to what exactly the shareholder desires.

The chairman should not allow a direct negative to any motion to be moved, as, for example, should a shareholder move on the motion to receive and adopt the directors' report that such motion "be not adopted." In the event of the majority of those present at the meeting being of the opinion that the report should not be adopted, they have the opportunity of voting against the chairman's motion for its adoption. On this subject a shareholder will be at liberty to move by way of an amendment that the adoption of the report be deferred for, say, one month, and that meanwhile a committee of three independent

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members be appointed to confer with the directors as to the position of the company and to report to a subsequent adjourned general meeting. If this amendment is carried, further resolutions will be proposed electing the members of the committee.

Prior to putting the amendment to the meeting, it may be possible that an amendment to the amendment may be proposed. For instance, to the effect that the meeting should be adjourned for three months instead of one month, and in such a case the chairman would have to put to the vote of the meeting the amendment as amended. If this is not carried the original amendment would then be put, and if this is carried by the votes of the meeting it should then be submitted as a "substantive motion" in place of the original motion for the approval of the directors' report.

In place of the amendment to the amendment as above outlined, a second amendment on entirely different lines might be proposed by a shareholder—for instance, to the effect that the meeting itself be adjourned for, say, one month in order to enable the directors to consider the desirability of obtaining an offer on the best terms for the **sale** of the company's business. In this case the second amendment will be moved and disposed of before the first amendment is dealt with. If the second amendment is passed, the first amendment falls to the ground, and the second amendment will be submitted as a "substantive motion." If the second amendment is not passed, it falls to the ground, and the first amendment will then have to be submitted to the meeting. If the first amendment is passed, it will be submitted as a "substantive motion," and if it is not passed it falls to the ground, the original motion submitted by the chairman being then put to the vote. The amendments should thus be submitted to the meeting in the inverse order in which they are proposed by the different shareholders.

Special articles of the company may provide such terms as is thought fit for the voting of members at a general meeting, but Section 60 of Table A provides that on a show of hands every member present in person shall have one vote, and on a poll every member shall have one vote for each share of which he is the holder.

In accordance with the provisions of Table A a resolution put to the vote at any general meeting shall be decided on a show of hands unless a poll is demanded by at least three members present, and a declaration by the chairman that a resolution has, on a show of hands, been carried and entered in the Minute Book shall be conclusive evidence of such resolution having been passed.

In the event of an equality of votes the chairman shall have a casting vote. If a poll is demanded on the election of a chairman or on the question of adjournment it shall be taken forthwith, but on any other question it shall be taken at such time as the chairman of the meeting directs.

It will thus be seen that considerable power is placed in the hands of the chairman in dealing with the votes of members on a poll which he might arrange to suit his own purposes, but no doubt if this power

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were used in an unreasonable manner an application to the Court would remedy any decision improperly arrived at.

When a poll is demanded it is necessary for the members present to appoint scrutineers for the purpose of checking the votes given and declaring the result of the poll. In the event of a lengthy list of members it may be desirable to adjourn the meeting for a week or longer period, in order that the scrutineers may have the opportunity of recording and checking the votes of all the members and reporting to the shareholders. The report of the scrutineers will have to be incorporated in the minutes of the general meeting. The forms of the principal general meeting minutes are incorporated in the agenda sheet above mentioned.

It now only remains to deal with the minutes of Extraordinary Meetings. These meetings may be called at any time by the board to deal with matters such as an increase of capital or the alteration of the articles, as all business is considered extraordinary which is outside the regular business of the annual general meeting.

Extraordinary resolutions must be passed by a majority of three-quarters of the total votes recorded, and in order to pass special resolutions which are necessary in the case of altering articles, &c., a further extraordinary meeting must be held at an interval of not less than fourteen days and not more than a month for the purpose of confirming the resolutions passed at the first meeting. Confirmatory resolutions may be passed at the second meeting by a simple majority of votes and then become "special."

All extraordinary and special resolutions must be printed and registered at Somerset House and proper minutes of the same entered in the Minute Book.

Section 66 of the Companies Act, 1908, provides that shareholders holding not less than 10 per cent. of the company's issued capital may request the directors to call an extraordinary meeting of the members for the purpose of considering the passing of resolutions included in their requisition.

If the directors do not call the meeting within 21 days, the requisitionists may themselves call the meeting. If, at such meeting, extraordinary resolutions are passed which require confirmation as special resolutions, the requisitionists may call the confirmatory meeting themselves if the directors have failed to do so within seven days of the date of passing the first extraordinary resolution.

The next article will deal with the Share Register, Share Certificates and Transfer Share Warrants to Bearer, and Dividends.

The Principles of Costing—III.

By A. Cathles, O.B.E., C.A.

The application of costing principles to the recording of stock and materials is often neglected, because, as Mr. Cathles points out, many people do not realise that money and material are the same thing. In the following article he describes fully a system which will give the manufacturer the efficient control over his stocks which is essential to the economical running of a factory.

Materials.

One does not require to study economics in order to realise that money and material are one and the same thing, and yet how few people who have the handling or recording of materials and stores to do, really appreciate that fact. Once realised, however, it will always be remembered, and if it is brought to bear when the various problems connected with the control and the use of materials are being considered, solution will be facilitated.

An incident that happened not very long ago may serve to make this point clear. The cost accountant of a foreign railway company, when on his way to visit a repair shop up the line, was accompanied by the local station-master in his walk along the track from the nearest station to the shop. In the course of that walk the cost accountant observed a coupling link lying between the metals, and, pointing to it, remarked, "There's eight dollars." The station-master made a jump for it, but, on realising what it was, drew back, saying, "Why, it's only a coupling link." "Yes," replied the accountant, "but it cost the company eight dollars." "I never saw it in that light before," admitted the station-master as he picked up the link to take it back to the stores.

It is a moot question whether to blame the mentality or the education of the worker who takes for his personal use a small quantity of material from his employer's premises and who yet would scorn to touch its value in cash.

If the worker can be taught to look upon materials as being money, and if the accountant in devising methods to control or record materials will act as if he were controlling cash, the solution of the stores problem will prove a simple matter. For every form used in connection with the receipt and disbursement of money there is an equivalent for the movements of materials and stores in the factory.

Whether a cost system is being run or not, there is a crying need for the proper recording of the receipt into store and the issue therefrom of all material if the manufacturer is to have that knowledge of the condition of his stocks that is essential if he is to run his factory economically. For it is surely folly to tie up capital in bigger stocks

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than are necessary, just as it is poor economy to keep stocks so low that work is impeded awaiting the necessary material.

Most manufacturers pay a great deal of attention to, and employ considerable staff upon, the recording and checking of workers' time and on all the other operations leading up to the payment of the wages, and were it not for the fact that they must know there would be trouble with the workers if the cash was not forthcoming on pay-day, one would almost assume that every one of them appreciated the necessity for proper control. Such an assumption would, however, be wrong in practically every case where investigation proved that there was no efficient control over the receipt and use of materials. And how often it is the case that not one-tenth of the care that is taken on wages is devoted to stores, notwithstanding the fact that in many factories the expenditure on material greatly exceeds the wage bill. It would seem that even the manufacturer himself does not realise that material is money.

So far as the element of materials is concerned, costing proper only begins when the raw material, component, or consumable store is taken from stock and put into production, but to make a system apply only from that point would be equivalent to keeping a Cash Book only for expenditure and making no record whatever of cash received. Consequently, the system must be arranged to control the material from the very start.

Purchase Requisition.

It will be remembered that, when organisation was discussed, it was stated to be one of the functions of the storekeeper to maintain the stocks of material at proper levels. The levels, which should be constantly under the review of the Planning Section, are defined by means of maximum and minimum quantities for each class of material. When the stock of any class is approaching the minimum quantity it is the duty of the storekeeper to instruct the Purchasing Department to place an order for further supplies. This instruction takes the form of a Purchase Requisition, stating the class and quantity of material required, the minimum and present stock, and the date by which delivery has to be made. The requisitions are numbered serially and are made out by the storekeeper in duplicate, the copies being retained by him for reference purposes, and the originals being sent to the Purchasing Department through the Planning Section, whose intimate knowledge of the future requirements of the factory will enable it to approve or amend the requisitions before passing them on for action. It will be observed that there is no provision on the form for the name of the supplier, for though the storekeeper may recommend a certain supplier, he must not be allowed to dictate to the Purchasing Department or in any way tie their hands to sources of supply. His is the function of checking the quality of goods received, and it is therefore inadvisable to allow him to name the supplier from whom the material is to be bought. It is not one of the purposes of a costing system to detect fraud, but the removal of all temptation to commit fraud is one of the objects to be kept in view in devising a system.

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Purchase Order.

On receipt of the Purchase Requisition the Purchasing Department prepares the order, specifying the order number, requisition number, quantity and class of material, price and terms, date of and instructions for delivery, and, of course, the supplier's name and address. Four copies are made of the order, and they are distributed as follows :—

- (1) (The original) to the supplier.
- (2) To the stores accountant.
- (3) (Minus price) to the storekeeper.
- (4) Retained by Purchasing Department.

Goods Received Sheet.

The next thing that happens is that the goods arrive at the factory and there is great necessity for an accurate record of receipt. This record is made on Goods Received Sheets, which are numbered serially and are prepared in triplicate, the original being sent daily to the stores accountant, one copy to the Purchasing Department (that they may watch that deliveries are being made to time), and the third retained by the storekeeper.

The sheets provide for the following record :—

- (1) Date of receipt.
- (2) Supplier's name.
- (3) Purchase order number.
- (4) Railway or delivery.
- (5) Truck number.
- (6) Cost of carriage (if to pay).
- (7) Number of packages.
- (8) Class of package.
- (9) Description of material.
- (10) Quantity or net weight received.
- (11) Quality.
- (12) Bin Card number.
- (13) Stores Ledger folio.
- (14) Invoice number and date.

The information on items (1) to (12) is filled in by the storekeeper, and the stores accountant inserts items (13) and (14).

It is the duty of the storekeeper to check the quality and quantity of goods received, and if the former is up to sample or specification he enters "O.K." in the "quality" column. If the goods are defective in quality the storekeeper makes a report thereon to the Purchasing Department whose function it is to take the matter up with the supplier. The quality reports are also numbered serially, and on the record of defective goods the "quality" column of the Goods Received Sheet shows the report number. This number is sufficient indication to the stores accountant that the invoice must not be passed without the sanction of the Purchasing Department.

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Bin Cards.

Before sending on the copies of the Goods Received Sheet the store-keeper records the receipt of each consignment on his Bin Cards (or Stock Cards). One of these cards is kept for each class of material handled. The cards are headed with a description of the material, and the maximum and minimum stocks, and they are ruled in three divisions, "In," "Out," and "Balance." The particulars shown in the "In" columns are, (1) date, (2) goods received sheet number, (3) initials (of party making the entry), and (4) quantity. In the "Out" columns are shown, (1) date, (2) requisition number, (3) initials, and (4) quantity, while the "Balance" columns show (1) date, (2) quantity. The Bin Cards should be kept on or in the bins to which they apply, and, when the balance on any card shows the stock to be nearing minimum, a red label should be stuck on the bin as a danger sign and should remain until a further consignment relieves the situation.

Stores Ledgers.

The first duty of the stores accountant on receiving his copy of the Goods Received Sheet is to post the quantities shown thereon to the debit of the appropriate Stores Ledger Accounts, to insert the Stores Ledger folio on the Goods Received Sheet, and the number of the latter in the Stores Ledger.

In order that proper control may be had over the use of materials and stores it is advisable to have in the Stores Ledgers a record of the values of goods handled, as well as the quantities thereof. For this purpose the ledger ruling will provide for rate and money columns, and the following is a full list of the headings necessary:—

Debit.

Date.
Goods Received Sheet number.
Supplier's name.
Quantity or weight.
Rate.
Value.

Credit.

Date.
Requisition or Allocation Sheet number.
Quantity or weight.
Rate.
Value.

When the purchase invoices have been received and checked (as explained below) the "Rate" and "Value" columns on the debit side of the Stores Ledger Accounts are written up therefrom.

Purchase Invoices.

The checking of these documents is work that must be carefully done, and the staff of the stores accountant is best qualified to do it, for in that section are centralised all the records pertaining to the ordering, receipt, and use of the materials. When received, the

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invoices should first be handled by the general accountant, whose staff will enter them in the Invoice Register and immediately pass them to the stores accountant after imprinting on the invoices themselves the checking stamp and entering in the appropriate division the invoice number. The checking stamp should provide for the following :—

- (1) Invoice number.
- (2) Checked with Goods Received Sheet as to quantity and quality.
- (3) Carriage inwards added.
- (4) Checked with Purchase Order as to price and terms.
- (5) Extensions checked.
- (6) Price and value posted to Stores Ledger.
- (7) Passed for payment.

After the narrative on the stamp should be two columns, headed "No. or Folio" and "Initials."

The narrative on the stamp indicates the work that has to be performed by the stores accountant, and when this checking has been done the invoices are passed back to the general accountant, who enters them in the Purchase Journal and the record of receipt of the materials is complete. It is to be observed, however, that the "price" and "value" to be posted to the Stores Ledger must include any carriage inwards that has to be paid.

Up to this point none of the records can be called costing records, for they are such as will be kept in all well managed factories which do not run a costing system, but it will be appreciated that the basic information thus provided will prove invaluable in ascertaining the cost of the materials that have been consumed during the year, and must, therefore, be essential to the success of any scheme whereby that cost is going to be analysed to the jobs upon which the goods have been used.

Requisitions.

The next step towards production is the issuing of the materials from the store to the shops, and it will be seen that for costing purposes a very great deal depends upon the record made of such issues. In thinking of material as money one would naturally liken the store to a bank, and it should be treated in every way as a bank. It should be in the charge of a responsible official and only duly authorised people should have access to its interior. Likewise no material should be allowed to pass out except upon the written request of a duly accredited party. This request (or "requisition," as it is known) is comparable with the cheque presented to a banker when money is being withdrawn. Requisitions, like cheques, are numbered serially and are issued in books to the parties (usually foremen) who are authorised to withdraw material. They are demands upon the store to deliver to bearer, or to send to a particular place, a definite quantity of specified material for use upon, and to be charged to the account of a job (works', standing,

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or repair order), which is also specified on the requisition. The form must, therefore, provide for the following information :—

- (1) Department.
- (2) Works', standing, or repair order number.
- (3) Date.
- (4) Quantity.
- (5) Class of material.
- (6) Foreman's signature.
- (7) Bin Card number.

It will also have columns for use in the stores accountant's office for :—

- (8) Price.
- (9) Value.

In factories where an efficient Planning Section is in existence, the requisitions for raw materials and parts will be made out by that section and issued to the foremen with the works', &c., orders, and the quantities specified will be those known to be sufficient for the jobs. In such case the storekeeper should be instructed to honour only requisitions signed by the Planning Section. The value of such an arrangement lies in the fact that, in the event of material being spoilt in process, the appropriate foreman must report the matter to the Planning Section before additional material can be obtained from the store, thus providing an earlier control over the misuse of material than could otherwise be obtained.

It is, of course, impossible to deal with consumable stores (such as oil, waste, &c.) in this manner, and foremen must therefore be authorised to requisition them. Requisitions for these stores should be printed on paper of a different colour from that used for raw materials.

The requisitions are prepared in triplicate—two copies being taken by messenger to the storekeeper and the third retained by the issuing party for reference. Of the two copies going to the storekeeper, one is returned with the material in order that the foreman may check that he is receiving what he asked for, or, in the event of the quantity being deficient, that the requisition has been altered and initialled by the storekeeper. The other copy is retained by the storekeeper and should be signed by the party to whom the goods are delivered, and any alteration of quantity initialled by him also.

When the material is issued, the quantity is posted on the appropriate Bin Card by the storekeeper, and at the end of each shift or day the requisitions are passed on to the stores accountant.

No requisition should be destroyed before reaching the stores accountant, and if a foreman should find it necessary to cancel a requisition he must ensure that one of the copies, with "cancelled" written boldly across it, reaches that official.

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The first duty of the stores accountant on receiving the requisitions from the storekeeper or foremen is to check, by means of the serial numbers, that he has received all the requisitions that have been issued. Each foreman should have requisitions whose serial numbers bear a prefixed letter or number which designate himself only, and the stores accountant will keep a record showing the last number received by him each day in respect of each foreman, and it will be one of his duties to see that each day's requisitions commence with the correct number and that there is a full sequence. Any that are missing must be traced and the copies retained by the foremen will be useful for this purpose.

Allocation Notes.

The next procedure on the part of the stores accountant is to sort all requisitions to the various kinds of material, and then, within the kinds, to order numbers. The total quantity of each kind of material issued to each job is thus ascertained, and this information is entered on Allocation Notes. One of these notes, in card or sheet form, is used for each kind of material, and is ruled to provide for :—

- (1) Class of material.
 - (2) Days of week (Monday, Tuesday, &c.).
 - (3, &c.) Analysis columns for order numbers, in which to enter the quantities issued to each.
- Last. Total quantity issued.

The quantity columns are totalled at the end of the week, and below these totals is inserted the price ascertained from the Stores Ledger, and below that again is extended the value.

The quantities and values of the order number columns are posted to the Cost Accounts as will be explained in a later article, and the quantity and value of the total column is posted to the credit side of the appropriate Stores Ledger Account.

This method of summarising the requisitions in quantity is applicable especially to process costing, but can be used also in job costing when the issues of the various materials to each order are numerous. In some businesses, however, it is found better to price each requisition and to post in detail to the Cost Account and to the Stores Ledger.

Materials Returned Note.

Material which is surplus to the requirements of the order to which it was issued (i.e. material left over on the completion of the job) must be properly recorded so that the order to which it was issued may receive credit for the value thereof. Such material should be returned to store on a "Materials Returned Note." This note must contain the following information :—

- (1) Date.
- (2) Works', standing, or repair order number from which returned.

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- (3) Date.
- (4) Quantity.
- (5) Class of material (distinguishing between good and defective).
- (6) Foreman's signature.
- (7) Storekeeper's signature.
- (8) Bin Card number.
- (9) Price.
- (10) Value.

These notes are serially numbered and are made out in triplicate—two copies going to the storekeeper with the material, one of which is returned to the foreman with the storekeeper's acknowledgment. The copy retained by the storekeeper is treated by him and later by the stores accountant in the converse manner to the treatment of the requisitions—the "Materials Returned Note" being a credit note to the job and a debit to the stores, whereas the requisition was vice versa.

Materials Transfer Note.

Material passing in the shops from one order to another without passing through the stores must be recorded on a "Materials Transfer Note." The information provided for in this note is similar to that in the "Materials Returned Note," with the addition that it will state also the order number to which the goods are transferred. These notes must be numbered also and are prepared in triplicate, two copies going to the receiving foreman, one of which is returned signed to the issuing foreman and sent by him to the stores accountant. A transaction of this description does not in any way affect the storekeeper, and there is, therefore, no record of it on the Bin Cards or in the Stores Ledger. It results only, so far as the records are concerned, in a transfer from one order account to another in the Cost Ledger.

Manufactured Products to Store Note.

Finished products, parts, &c., go into store on a "Manufactured Products to Store Note," which provides for the same information (except the distinction between good and defective) as the "Materials Returned Note," and which is treated by the storekeeper in the same manner. The treatment accorded to it by the stores accountant varies only in the pricing of the debit to stores and the credit to the Cost Account, and in this case the price will be ascertained from the Cost Ledger instead of from the Stores Ledger.

Delivery Notes.

Deliveries of manufactured products, parts, or materials ex-store to customers should be made by the storekeeper on an order (unpriced) received from the Sales Department, a priced copy of such order being sent to the stores accountant. When goods are despatched the storekeeper prepares a Delivery Note in quadruplicate, sending the original

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to the customer with the goods, one copy to the Sales Department and one copy to the stores accountant. The remaining copy is retained by the storekeeper. On receipt of their copy of the Delivery Note, the Sales Department prepare the customers' invoice in triplicate, sending the original to the customer, a copy to the stores accountant, and retaining the third for reference purposes. The stores accountant, on receiving the copies of Delivery Note and Invoice, checks same with the copy order, passes the certified Invoice to the general accountant for entry in the Sales Day Book, and posts the Delivery Note to the Stores Ledger Account after pricing at the value at which the goods were taken on charge in the Stores Ledger.

Materials Control Account.

Every well-ordered stores system will provide for a financial control over materials. Such control may be efficiently maintained by the use of a memo account which is debited monthly with the total value of all purchases, and the total values of all materials returned and manufactured products sent to store, and which is credited monthly with the total value of the issues from store as ascertained by means of the weekly Allocation Notes and the summary of Delivery Notes. The Stores Ledger balances should be extracted monthly and the total thereof proved with the Control Account.

The Fundamentals of Accountancy—III.

By Lawrence R. Dicksee, M.Com., F.C.A.

(Professor of Accounting and Business Organisation in the University of London.)

The Trial Balance, its preparation, uses, and limitations, forms the subject of Professor Dicksee's article this month. The method of dealing with Continuous Transactions and Suspense Accounts is also described.

VIII.—The Trial Balance.

If business transactions be recorded, completely upon the lines already laid down, it follows that the work of the "Accountant" consists all the time of building up equal totals of debits and credits, suitably spread over the various accounts affected by these transactions, but always an equality of debits and credits, thus recognising that no one can receive that which no one else has parted with; that wealth cannot be created spontaneously, nor vanish leaving no trace. It follows, therefore, that if at any time a summary be prepared of the entries in all the accounts, in such a form that it is practicable to arrive at the sum total of all the debits and also at the sum total of all the credits, these two totals should agree, and will agree if the "Accountant" has done his work properly. Similarly if, instead of preparing an abstract of all the debits and all the credits, he prepares an abstract merely of all the outstanding balances, both debit and credit, it equally follows that the total of all the debit balances should equal the total of all the credit balances.

Such a summary is a Trial Balance. It may take any one of the following three forms:—

- (a) A list of all the accounts, showing in separate money columns provided for the purpose the total amounts entered to the debit and to the credit of each separate account.
- (b) A list similar to (a) but provided with two additional money columns into one or the other of which the balance of the account (i.e. the difference between the debit and credit totals) is extended, according to whether the balance is debit or credit.
- (c) A summary similar to (b) but omitting the two total columns, and also the names of such accounts as for the time being show no balance.

The Trial Balance derived its name from the fact that it represents the first trial, or attempt, to ascertain whether the work of the "Accountant" has been accurately performed. It may be prepared at any desired moment, but in practice it is usually prepared at regular intervals—(say) once a month, or, if the transactions are not very numerous, once every three months. Once prepared, the Trial Balance serves another very useful purpose—that of providing, in a conveniently compact form, a classified summary of those transactions that still require watching, because they have not yet been settled.

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IX.—Limitations of the Trial Balance.

If there is a disagreement of the Trial Balance totals it is obvious that there is something wrong with the accounting records, but the converse is not necessarily true. The Trial Balance totals may agree, and yet the record may not be completely accurate. If there is only one error in the record it must necessarily show up as a difference in the Trial Balance totals, but two or more errors may have been made which happen to exactly compensate or neutralise each other. Thus, owing to the presence of what are called "compensating errors," it is possible for the records to be inaccurate although the Trial Balance totals agree.

There are many kinds of "compensating errors." The Accountant Student requires to make himself familiar with all kinds, as, naturally, special care has to be directed towards possibilities of error that the Trial Balance test will not bring to light. The following are all examples of compensating errors :—

- (a) A transaction recorded to the debit or credit of the wrong account. The effect of this mistake is to falsify the balances of two accounts to an equal extent in opposite directions.
- (b) The omission of all record of a transaction that has taken place. The effect of this, again, is to falsify the balances of two accounts in opposite directions to an equal extent.
- (c) The attaching of a wrong money value to a transaction otherwise correctly recorded. Here again the balances of two accounts are affected equally.
- (d) The inclusion in the record, whether by accident or design, of a transaction which in point of fact never took place. Here, again, the balances of two distinct accounts are equally affected.
- (e) The making of lop-sided records, which by a coincidence neutralise each other. If a transaction be recorded, whether by accident or design, so that the amount credited to one account is unequal to the amount debited to another, such a mistake will naturally prevent the agreement of the Trial Balance totals, unless it happens to be compensated or neutralised by another mistake (or mistakes) in the opposite direction. Thus, the over-crediting of one account by 10s. would of itself produce a non-agreement in the Trial Balance totals of like amount; it may, however, be compensated by another error over-debiting the same (or another) account by 10s., or by an error under-crediting the same (or another) account by 10s. In more complex cases, one error in one direction may be neutralised by two or more in another; or a number of errors in one direction may be neutralised by a number of errors in the other direction; but, the more complex the errors, naturally the more remarkable becomes the coincidence that they should exactly neutralise each other. As a rule, the Accountant Student will not be far wrong in being somewhat sceptical about the *bona fides* of "compensating" errors coming under heading (e).

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X.—“ Continuous ” Transactions.

In theory, the “ Accountant ” is busily engaged recording all business transactions as they occur. In practice, however, certain kinds of transactions can hardly be said to take place at any particular moment of time inasmuch as they are continuous, e.g. the accruing of Rent, Interest, Wages, Salaries, &c., and the imperceptible wastage, or depreciation, of equipment arising from use or the lapse of time. Accordingly, these “ continuous ” or “ imperceptible ” transactions fail to get recorded in the ordinary course of the “ Accountant’s ” routine work. In the ordinary way, he overtakes this omission by recording them as and when they crystallise into actual receipts or payments of money. If they thus crystallise at sufficiently frequent intervals (e.g. daily) this would doubtless be often enough for all practical purposes, but in the ordinary course of events they only result in actual receipts or payments of money at much less frequent intervals, and, accordingly, at any particular time when it is necessary that the accounting record should be absolutely complete, it becomes necessary for the “ Accountant ” to depart somewhat from his usual routine and to make special entries with a view to recording the effect up to date of these “ continuous ” transactions. It is especially when it is required to prepare a Balance Sheet that it becomes thus necessary to ensure the absolute completeness of the record. To a large extent a careful scrutiny of the Trial Balance will serve to indicate what further, or adjusting, entries are necessary, but to some extent at least the information must be sought outside the accounting records.

XI.—Suspense Accounts.

When “ continuous ” transactions have been running on, and have not yet materialised into receipts or payments of money, it is clear that, from the point of view of the business, somebody has to be regarded as a debtor or as a creditor to the extent to which accounts representing earnings or expenses have to be credited or debited as the case may be. As the adjusting entries merely serve the temporary purpose of completing the record up to a particular date for interim Balance Sheet purposes, it is usually thought desirable not to open a separate account for each of the various individual parties concerned in these transactions with the business, but to combine the general effect of a number of such transactions in one, or possibly more, “ Suspense ” Accounts. Thus, one Suspense Account may show a credit balance representing the aggregate amount of accruing liabilities in respect of continuous transactions (e.g. rent, wages, salaries, interest, &c.) accruing due to the date of the Balance Sheet ; another may show a debit balance representing the aggregate amount paid in advance in respect of outgoings that are more properly chargeable against the profits of the ensuing period, and so on. It is convenient to multiply Suspense Accounts, so that the balance of each may have a quite definite meaning ; but there is nothing gained by carrying the multiplication beyond this stage.

The relationship of the Suspense Account to Depreciation may be conveniently postponed until we deal with that subject as a whole in Section VII.

Audit Programmes and Procedure—III.

By Andrew Binnie, F.C.A., C.A.

This month Mr. Binnie gives some suggestions as to scrutinising various balances and settling doubtful points which may arise. He warns the accountant that before commencing an audit he should take care that there is no misunderstanding as to the actual duties he has undertaken.

(c.) Sundry Debtors and Creditors.

(d.) Impersonal and Private Accounts.

These classes of debtors and creditors may be conveniently dealt with together, as being co-related. There is no statutory obligation to sub-divide sundry or trade debtors or creditors into classified groups in ordinary Balance Sheets, and in the case of public companies whose accounts may be of use to trade rivals, it is often considered unwise to give more than the minimum amount of information. From the auditor's point of view, for the essential purpose of comparison from year to year the more one resorts to sub-division on fact-producing lines the more effective is the comparison. If the Balance Sheet be in summarised form, Schedules should be submitted to the auditor in which the debtors and creditors are systematically classified. Apart from undertakings of a special nature, the general run of balances (c) and (d) is as follows :—

Companies and Partnerships.

Loans.	Bank Charges.
Borrowed Moneys.	Telephones.
Plant.	Lighting.
Machinery.	Heating.
Boilers.	Repairs and Renewals.
Engines.	Stationery and Printing.
Loose Tools.	Cables and Telegrams.
Fixtures and Fittings.	Postages.
Furniture.	Salaries.
Trading Stock.	Commission.
Stocks and Shares.	Discount.
Work in Progress.	Royalties.
Bank Balances.	Bad Debts.
Cash Balances	Depreciation.

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Leases.
Sales.
Purchases.
Wages.
Rents and Ground Rents.
Rates and Taxes.
Insurance—
 Fire.
 Employers' Liability.
 Live Stock.
 Loss of Profits.
 National Health.
Freight.
Carriage.
Trade Expenses.

Companies Only.

Share Capital.
Debenture Capital.
Debenture Redemption Fund.
Reserves.
Profits prior to Incorporation.
Preliminary Expenses.
Underwriting Commission on
 Shares.
Commission on Debentures.
Interest on Capital Outlays.
Debenture Interest.
Directors' Fees.
Directors' Travelling Expenses.
Debenture Trustees' Remuneration.
Transfer Fees.
Auditors' Fees.
Preference Dividends.
Ordinary Dividends.
Appropriation Account.

Subscriptions to Trade Societies
Subscriptions to Charities.
Law Costs.
Accountants' Charges.
Excess Profits Duty.
Income Tax.
Income from Investments.
Trading Account.
Profit and Loss Account

Partnerships Only.

Partners' Capital Accounts.
Partners' Drawing Accounts.
Partners' Loan Accounts.
Loans to Partners.
Interest on Capital.
Interest on Drawing.

Note.

As far as Partnership Accounts are concerned, a strict audit is sometimes required by the active partners themselves, more often by a sleeping partner, a retired partner whose interest has not been liquidated, or it may be by trustees or others concerned in the partner-

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ship business. More frequently, however, a professional accountant is employed simply to raise a true and correct Balance Sheet as between all parties, an arrangement which is often loosely referred to as an audit. The accountant should take care that there is no misunderstanding as to the actual duties he has undertaken. It is desirable in every case to have a clear arrangement reduced to writing, otherwise the "glorious uncertainty of the law" may fix the accountant with a responsibility which he at least had never contemplated, and for which he had received no quid pro quo. For example, in an action for damages for negligence, it has been held that an accountant employed to check books and prepare a Balance Sheet should agree the Cash Book with the Bank Pass Book, or inform his client he has not done so, though, as every auditor knows, a Bank Pass Book is not conclusive evidence without the banker's certificate as to the balance, since the Bank Book itself is capable of being manipulated. Many private limited companies (conversion of partnerships into companies in which the partners become the sole directors and shareholders) retain all the business characteristics of a partnership, and on the ground of expense the director-shareholders frequently desire only a partial audit. In such cases the auditor will do well to safeguard himself by suitably qualifying his certificate. The following suggestions as to scrutinising the balances and settling matters arising thereout are, therefore, subject to such reservations as to the work to be done as may apply in any particular case:—

Loans (Companies).

At the first audit a Schedule of Loans, giving all necessary details, should be produced to or compiled by the auditor, the schedule being brought up to date at each audit.

See that the company is authorised by its memorandum and articles of association to make loans, and on what conditions.

See that the loans are authorised or approved by the minutes of the directors' meetings.

Ascertain the approved conditions as to security, rate of interest, time of payment of interest and of repayment of principal, and see whether they have been complied with, also that the interest has been duly received and accounted for and properly apportioned over the periods to which it relates. If interest accrued but not received be brought into account, procure evidence that the loan is good, still more so if the interest has accrued due but has not been received.

The securities held in respect of the loans should be produced to the auditor (a matter of procedure which will be dealt with in a subse-

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quent number of this series as to the verification of investments). If not satisfied that the security is sufficient cover in the case of any of the loans, place a schedule of such loans before the directors and ascertain whether in their opinion any additional cover is considered necessary, and, if not, why not, making careful notes as to the information and explanations given, so as to fix the responsibility. In ordinary undertakings unsecured loans are the exception. If there are such loans, make the usual inquiries which are made in the case of book debts, and if doubtful as to any of them, place a list before the directors, following the procedure suggested above in the case of doubtful securities

Borrowed Moneys (Companies).

See that the company has express power to borrow under its memorandum of association, or has an implied right to do so from the nature of its business.

See how far the directors are authorised, by the articles of association, to exercise these powers, and in what manner, and note any restrictions imposed upon them as to total amount, &c.

See that any borrowing which takes place is duly authorised by the minutes of the directors' meetings, also note the conditions attached to the borrowing or endorsed on, for example, the debenture trust deed or debentures.

If the conditions provide for repayment of the debentures or loans at a premium, and, or, a stipulation that a Sinking Fund is to be created out of profits for the repayment of either the principal or the premium or both, see that the conditions are complied with. In the absence of any express stipulation as to the creation of a Sinking Fund, the auditor can do no more than recommend that, as a matter of sound finance, a Sinking Fund be raised.

See that interest accrued up to the date of the accounts is brought into account.

Inspect the Register of Mortgages and see that any charges appearing therein as having been created are brought into account. Should any Debentures, Mortgages, or other charge be paid off, the cancelled mortgage debentures or debenture certificates should be produced. If a company is buying its own debentures, the debentures or debenture certificates will be produced in the course of verifying the investments. If the debentures are being purchased out of the Sinking Fund, see whether it is competent to the company under the Sinking Fund conditions to keep the debentures "alive."

See that the total mortgages, debentures, or other charges are disclosed in the Balance Sheet.

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Note on Ultra Vires Borrowing.

The articles of association of a reconstructed company, by inadvertently following the articles of the original company, restricted the borrowing powers of the directors to the amount of the *subscribed* share capital. With the exception of the seven signatories' shares, which were subscribed and paid for in cash, the shares were *issued* as fully paid, in satisfaction of the purchase price. The directors had borrowed on debentures up to the amount of the issued capital. The auditors drew attention to the matter, and the directors were advised that the borrowing was *ultra vires*, and that for their own protection they should have the articles amended and have the loans ratified by the shareholders in general meeting.

Loans and Borrowed Monies (Partnership).—Subject to the reservations already made, and to the circumstances of the case (which preclude borrowing on debentures), the same procedure may be followed as in the case of companies. All loans, whether to or by the partnership, should be brought to the notice of the whole of the partners, and any borrowing or lending in contravention of the partnership articles should be reported to them.

Plant, Machinery, Boilers, Engines, Furniture, and Fittings, and such like.—By reference to the invoices, see that the amounts debited to these accounts are legitimate additions to fixed capital, and not simply repairs; also that sufficient provision is made for depreciation. If the provision for depreciation be sufficient, repairs and renewals are frequently charged to capital. Whether this is justified or not is a question of fact as to which expert and independent advice can usually be obtained from the officials of a company or from partners. The usual rates of depreciation are tabulated in various books on Factory Accounts. White Paper No. Cd. 9134, which can be purchased through any bookseller, also contains the rates of depreciation allowed by the Inland Revenue for income-tax purposes in a number of industries, and these rates may be taken as the irreducible minimum (These rates will be included in this series of articles under the headings of the matters to which they relate.) For legal reasons arising out of decisions in respect of insurance and other claims, many experts favour the practice of creating a reserve for depreciation instead of actually writing down the assets. For the purpose of Income Tax, Excess Profits Duty, and Corporation Tax computations, as the rates of depreciation allowed are usually less than the rates charged in commercial accounts, the raising of a reserve is undoubtedly the more convenient practice. The auditor should lose no opportunity of going

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round the works of his clients. By observation and comparison he will develop a sense of the depreciation applicable to a particular case which neither White Papers, books, nor programmes can convey. All of the items under the above headings should be carefully subdivided in the Ledgers so as to permit of a close comparison year by year, as well as a careful consideration of the appropriate depreciation. Some auditors take a certificate in the following form :—

“ I certify as follows :—

1. That the Plant, Machinery, Furniture, Fittings, &c., belonging to the company and included as assets in its Balance Sheet of 19...., remained in its possession during the ending....., 19...., and were in its possession at the latter date (trifling sales of old material (if any) alone excepted), and are included as assets in the Balance Sheet of....., 19...., being included in the following items :

2. That the amount expended during the in repairs and renewals, which has been charged to Revenue, has sufficed to keep the said plant, &c., in good order and condition, and that the amount written off for depreciation is in my opinion sufficient for the purpose.

3. That all amounts charged as additions to the said Plant, &c., during the represent real additions to capital value, as opposed to expenditure on repairs and renewals.

Signature.....

Office.....

Date.....

Loose Tools.—Stock is usually taken of Loose Tools, and a considered valuation made. The Ledger Balance should be compared with the valuation, the accuracy of which should be certified by responsible officials. In some cases stock is not taken, depreciation being written off the Ledger Accounts. In such cases reasonable evidence should be procured to the effect that the rate is sufficient and in accordance with the custom of the trade.

Drawings, Patterns, &c.—The unexhausted value of these items is a matter for expert opinion. The sound financial policy, and one which the auditor should urge upon his clients, is to write down these assets as quickly as possible to a low figure. The auditor should carefully examine the “ building up ” of these accounts, and satisfy himself that it is on a reasonable footing.

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Trading Stocks.

Quantities.—The auditor does not take stock, and depends upon a certificate to the effect that the quantities have been carefully and correctly taken. In some industries, such as cocoa companies, a reliable statement may be available or prepared of the stock on hand at the beginning of the period, the quantities bought and sold, showing the stock which should be in hand at the end of the period, and a rough agreement with the Stock Sheets made after allowing for waste, shrinkage, &c.

Value.—The accepted official formula is that stocks be valued at cost or market price, whichever is the lower, and a certificate to this effect should be obtained, signed by responsible persons. The formula no doubt implies that due allowance has been made for old, damaged, or depreciated goods, but it is desirable that this should be specifically stated in the certificate.

As to what constitutes true cost experts differ. In one otherwise very practical treatise on the subject traders are recommended to include Income Tax in cost—a suggestion which pre-supposes more than a little prevision on the part of the costs clerk. Whether interest on capital should be included in cost is another debatable proposition. The auditor should endeavour to satisfy himself that the principle adopted is reasonable and consistent from year to year. What market value implies is also an engaging question, depending upon a variety of circumstances, sometimes simple, but more often complex. Even market quotations, where available, are not conclusive evidence, since much depends upon individual capacity in handling markets, and upon the quantities which may be put upon the market. To adopt the market value on a particular day in the year is not, therefore, necessarily a rational principle. The sound financial policy is that stocks be written down freely, a conservative estimate made both of cost and market value, and such reserves created as expert judgment suggests. It is sometimes possible to compare the valuation of specific items of stores and raw material with the corresponding invoices, or to compare the valuation of finished stock with sales made at about the time of stocktaking, and so to obtain a key to the principle on which the valuation has been made. A rough and ready test may be applied to stocks by working out the percentage of gross profit on sales from year to year. If the percentage be found to vary considerably, further inquiries should be made. In some trades the regular practice is to take stock at market value less a discount, in which case the valuation may also to some extent be tested. There

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are also trades in which certain "base" stocks are taken at a constant value from year to year.

In the main, however, the auditor, unless he specialises in a particular manufacture or trade, must depend upon the certified statements of those who are engaged in the manufacture or trade and can gauge the proper valuation to be placed upon the stock, and the recognised practice is for the auditor to accept a certificate from a reliable official in a form similar to that which is now being adopted by the Income Tax authorities. It may be advisable that the certificate should also state that the stock has been taken on the same basis as in previous years, and that all goods taken into stock have been charged as purchases.

Extensions, Casts, &c.

The working out and checking of the extensions and casts should be certified by those who are responsible for the work. The auditor will exercise his own discretion as to checking the whole or part of the extensions and casts.

Certificate as to Stock.

A common form of certificate is as follows:—

"I hereby certify that the above is a correct list of the stock as at, 19..., amounting in value to £....., that same has been taken at cost price or at market value, if lower, and that due allowance has been made for old, damaged, and depreciated goods.

Quantities taken by

Prices and proper allowances fixed by.....

Moneying out and additions made by.....

Checked by.....

Finally approved by.....

I further certify that the said stock-in-trade was the property of the company on the said date and was then in its possession, and that it includes no plant, machinery, fixtures, or fittings.

(General Manager or other responsible official)."

To obviate the delays and inconvenience of a yearly stocktaking, the quantities of stock are sometimes taken down from the Stock Ledgers at the close of the year, the actual stock being frequently compared during the year with the Stock Ledger records. The periodical comparison should be made by responsible persons and the Stock Ledger balances agreed, written down, and certified by them at reasonable intervals.

Income Tax Practice—III.

The working of the income-tax forms such an important part of an accountant's duties that it is essential that students should be acquainted with the fundamental principles of the tax. It is intended in this series of articles, specially written by the Income-tax Expert of "The Accountant," to treat the subject in a manner intelligible to students, and later, to work up to the higher phases of the subject.

Schedule D (continued).

Cessation.

When a business ceases, the law provides for an adjustment of the liability for the final year and for the three preceding years. This is, however, solely at the option of the taxpayer, and it only applies when the *business* itself has ceased, not when the proprietor has himself ceased to carry it on, thus no relief is given when the business is sold. The relief is divided into two parts:—

(a) for the year of cessation,

(b) for the three preceding years,

and a taxpayer may take either or both, but he cannot split (b), as the claim (b) must be made for the three years *en bloc* or not at all.

Adjustment is given to the actual profits of each of the years. Assume a business ceased on 31st December 1920, and that the profits were as follows:—

Year to 31st December	1914	..	£	8,000
"	"	1915	..	10,000
"	"	1916	..	7,000
"	"	1917	..	6,000
"	"	1918	..	4,000
"	"	1919	..	2,000
"	"	1920	..	800

The assessments would be:—

1917-18

	£	£
1914 ..	8,000	
1915 ..	10,000	
1916 ..	7,000	
	<u>3125,000</u>	.. 8,333

1918-19

	£	£
1915 ..	10,000	
1916 ..	7,000	
1917 ..	6,000	
	<u>3123,000</u>	.. 7,666

1919-20

	£	£
1916 ..	7,000	
1917 ..	6,000	
1918 ..	4,000	
	<u>317,000</u>	.. 5,666

Income Tax Practice.

1920-21

1917	..	6,000	
1918	..	4,000	
1919	..	2,000	
		<hr/>	
		3)12,000	
		<hr/>	
		4,000	— $\frac{1}{3}$ ths = 3,000
			<hr/>
			£24,665
			<hr/>

The relief allowable is as follows :—

1920-21

Assessment	..	£3,000	
Actual Profits, $\frac{1}{3}$ of £800	=	600	
		<hr/>	
			£
			2,400

Three preceding years.

	Assessment		Actual Profits	
	£		£	
1917-18	.. 8,333	..	6,000	
1918-19	.. 7,666	..	4,000	
1919-20	.. 5,666	..	2,000	
	<hr/>		<hr/>	
	21,665		12,000	
	12,000			
	<hr/>			
				9,665
				<hr/>
				£12,065
				<hr/>

Section 133.

From 1914-15 to 1919-20 inclusive, a special provision was introduced to meet the case of falling profits. This can only apply *after* the end of a year of assessment, and, in practice, a claim is admitted if made within twelve months after the end of such year, so that it is still operative during 1920 for the year 1919-20.

The principle of the relief is that the assessment may be reduced to the average of the two preceding years and the year of assessment, when the reduction of profits is directly or indirectly due to the war.

The following example shows the working of the provision :—

Profits.

Year to 31st December	1916	..	£
"	" 1917	..	4,000
"	" 1918	..	3,500
"	" 1919	..	3,000
			2,000

The 1919-20 assessment would be :—

		£
1916	..	4,000
1917	..	3,500
1918	..	3,000
		<hr/>
		3)10,500
		<hr/>
		£3,500
		<hr/>

The adjustment would be :—

		£
1917	..	3,500
1918	..	3,000
1919	..	2,000
		<hr/>
		3)8,500
		<hr/>
		£2,83
		<hr/>

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The adjusted profit must not be less than the profits of the year of assessment, so that when the adjusted average would give a profit less than the profit of the year of assessment, the adjustment is made to the profit of the year. This is shown as follows:—

Profits.

Year to 31st December	1916	..	£ 8,000
"	" 1917	..	4,000
"	" 1918	..	1,000
"	" 1919	..	3,000

The adjusted figure would be:—

		£
1917	..	4,000
1918	..	1,000
1919	..	3,000
		<hr/>
		3)8,000
		<hr/>
		£2,666

The adjustment would, therefore, be made to £3,000, not £2,666.

Two Businesses.

If a trader owns two distinct businesses he is separately assessable on each, but may set off a loss on one against a profit on another. This is worked as follows:—

A. Business				B. Business			
		£				£	
1917	..	Profits	.. 1,000	..	Profits	.. 800	
1918	..	"	.. 600	..	Loss	.. 200	
1919	..	"	.. 1,200	..	"	.. 1,500	
			<hr/>			<hr/>	
			3)2,800			3)900	loss
			<hr/>			<hr/>	
			£933			£300	loss

The liability is thus on £933 — £300 = £633.

Loss in Business.

If a loss is made in the year of assessment it will, in the normal course, be allowed in the assessable averages for the three subsequent years of assessment, but in order to give an *immediate* relief a taxpayer has the option of claiming repayment on the *amount of the loss*. It should be particularly noted that this provision does not allow an assessment to be discharged when it exceeds the amount of the loss. Assume the profits and losses were as follows:—

Year to 31st December	1916	..	£ 2,000	profit
"	" 1917	..	6,000	"
"	" 1918	..	4,000	"
"	" 1919	..	1,000	loss
"	" 1920	..	2,000	"
"	" 1921	..	4,000	"

The 1919-20 assessment would be:—

		£
1916	..	2,000
1917	..	6,000
1918	..	4,000
		<hr/>
		3)12,000
		<hr/>
		£4,000

Income Tax Practice.

Now, the £1,000 loss could be repaid against the tax paid on the £4,000, in which case the loss does not come into subsequent averages, or it may be allowed in the next three years in the ordinary averages. The position is shown by the following:—

Normal Assessments.

1919-20.

	£	
(Above)	4,000	

1920-21.

	£	£	
1917	6,000		
1918	4,000		
1919	1,000	1,000 loss	
	10,000		
	1,000		
	3)9,000		
			3,000

1921-22.

	£	£	
1918	4,000		
1919	1,000	1,000 loss	
1920	2,000		
	6,000		
	1,000		
	3)5,000		
			1,666 10

1922-23.

	£	£	
1919	1,000	1,000 loss	
1920	2,000		
1921	4,000		
	6,000		
	1,000		
	3)5,000		
			1,666 10
			£10,333 0

By Claim for Loss.

1919-20.

	£	
£4,000 - £1,000 .. .	3,000	

1920-21.

	£	
1917	6,000	
1918	4,000	
1919	nil	
	3)10,000	
		3,333

1921-22.

	£	
1918	4,000	
1919	nil	
1920	2,000	
	3)6,000	
		2,000

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1922-23.

1919	nil
1920	2,000
1921	4,000
	<hr/>
	3)6,000
	<hr/>
	2,000
	<hr/>
	£10,333
	<hr/>

It is thus seen that the aggregate *assessments* are the same in either case, but the claim for the loss gives an *immediate* relief. If, however, the *rate of tax* varies, the position is altered, as an increase in the rate in the subsequent three years would favour the allowance of the loss in the averages as shown below, assuming the rate in the £ to be 6s. for 1919-20 and 1920-21, and 7s. for 1921-22 and 1922-23 :—

<i>Under Claim</i>							<i>Without Claim</i>								
		£	s	d				£	s	d					
1919-20	..	3,000	at 6/-	=	900	0	0	..	4,000	0	at 6/-	=	1,200	0	0
1920-21	..	3,333	" 6/-	=	999	18	0	..	3,000	0	" 6/-	=	900	0	0
1921-22	..	2,000	" 7/-	=	700	0	0	..	1,666	10	" 7/-	=	583	5	6
1922-23	..	2,000	" 7/-	=	700	0	0	..	1,666	10	" 7/-	=	583	5	6
				<hr/>								<hr/>			
				£3,299 18 0								£3,266 11 0			
				<hr/>								<hr/>			

EDITORIAL.

The Control of National Expenditure.

The country is getting alarmed, and rightly alarmed, about the growth of public expenditure, and at the burden of taxation which falls on trade and is subsequently borne by the consumer, either at home or abroad; and some of the more far-seeing critics realise that once the present boom is over the financial and trade position may be very precarious.

The Press is constantly urging that the Treasury must regain its control of the spending departments, but how this check is to be exercised is never suggested.

Now, although we have no inconsiderable admiration of the ability of many of the Treasury officials, who, in the majority of cases, are without doubt exceedingly able men, we cannot overlook the fact that these officials, the cream of the Civil Service, have generally little knowledge of ordinary business methods, and work very largely on precedent.

If a matter, involving expenditure, be referred to the Treasury for approval, it depends very much on the way the case is presented whether sanction will be given. In an *ex parte* application of this character it is possible so to represent, or rather mis-represent, the facts that approval is given which otherwise might be withheld.

We also have not much confidence in the various Committees appointed by the House of Commons to review the expenditure of the great spending departments.

Individually, the members of these Committees endeavour to track down cases of waste and extravagance, but it is impossible for them to get the right perspective at the few meetings at which evidence is given by a small number of officials, none too anxious to prepare a rod for his own back.

It must not be imagined that we suggest for one moment that these Civil Servants wilfully try to deceive the Committees but it is an unwritten law in the Civil Service that the officials shall protect their Minister to the best of their ability; and although they may disagree with him, they will nevertheless do all in their power to save him from criticism, either in Parliament or outside.

It is a fine tradition, one which undoubtedly is a great source of strength to a Minister, but although we respect these men for their loyalty, we are not altogether certain whether if they would adopt a more critical attitude it would not be better for the country.

Nor can the Minister himself be expected to exercise any tight control on Expenditure.

The Accountants' Journal.

It is his primary function to direct the general policy, and in so far as such policy involves expenditure he is, of course, responsible, but otherwise he can only deal with matters which are directly referred to him for decision.

The duties of a Minister to-day are no sinecure, and his time, apart from his duties in the House, is fully occupied with conferences, deputations and meetings with his head officials. Yet the Minister has to shoulder the blame if anything goes wrong.

What is the alternative which we recommend?

We would appoint an independent Finance Committee in every Government Department, comprised of outside financial and commercial men (who, if necessary, should be paid for their services) with the Financial Secretary to the Committee as Chairman, and the Accounting Officer, who should be a direct representative of the Treasury, as an *ex officio* member.

This Committee, through the Financial Secretary, would be answerable to the House of Commons for all expenditure, and it would be their duty to examine all schemes involving expenditure, approve estimates, scrutinise monthly returns of expenditure, and generally control the financial side of the department. In case of disagreement between the Minister and the Committee on any important matter, reference would be made to the Cabinet for decision.

In each department we should also require a section of the Comptroller and Auditor General to carry on a continuous audit, and to submit a monthly report to the Finance Committee, so that any cases of waste and extravagance could be dealt with *at once* instead of reviewed, as at present, perhaps two years afterwards, when the Report of the Comptroller and Auditor General is considered by the Public Accounts Committee.

In practice, the Internal Audit Section, attached to the Exchequer and Audit Department, would be the means of bringing to the notice of the Finance Committee matters which required further investigation and action.

In some directions the check exercised to prevent loss or fraud is most minute—in fact, in some cases, it would be far more economical to exercise less check and run the ordinary business risk. The difficulty is that the majority of officials fear to accept responsibility in case their action may be criticised adversely, as in that event they are liable to censure if they have failed to observe the regulations laid down.

We would also like to see some scheme introduced whereby the ranks of Civil Servants could be strengthened from time to time by the inclusion of outside men with commercial training.

Editorial.

It should likewise be possible to effect some arrangement whereby men under thirty should be granted five years' leave, without pay, to gain outside experience, with the understanding that at the end of that period they should be reinstated if they desired, without loss of promotion or pension, and if they justified a higher position as the result of their increased experience, they should be given the opportunity.

The great fault of Government administration is that the men occupying responsible positions are not paid salaries compatible with commercial salaries.

The cheapest man in a large Limited Company is the man drawing £5,000 or £10,000 a year. The Directors realise that to put a £1,000 man in his position would spell disaster to the concern. The Government considers that a particular post is worth £1,000 a year because from time immemorial the salary attached to such post has been £1,000 a year, with the result that the best men are not secured, and waste, extravagance and incompetent management is the result.

It is not how much any individual costs in salary, but how much the administration of the department as a whole costs, which really matters, and we should give the Finance Committee very wide powers in this direction.

We need not touch here on the system of Government Accounting to be adopted.

With *real live* financial control that would follow as a matter of course, as without proper statistics and proper accounting returns it would be impracticable to effect any real control.

We make no apology for dealing with this question in the *Journal*. It is one which affects every business man to-day, and one which should receive consideration on the part of those with practical experience of how financial control can best be exercised.

The traditions of the past should be forgotten, and the subject considered *de novo*. There is no reason, except that of custom, why the control of a Government Department should not be exercised in the same way as in a large Limited Company, and although we have only sketched very crudely the outlines of the scheme we should adopt, we believe in this direction lies the solution.

Control of expenditure consists not in checking in detail, expenditure which is proper, to avoid loss of pence; but in preventing waste, extravagance, and expenditure, whether of money *or time*, that is *unnecessary*.

The goal to be reached is "Efficiency—at the least possible *total* cost."

Notes.

An Alternative to the E.P.D.

The following suggestion as an alternative to Excess Profits Duty was recently made to us, and we should like to have the opinion of our readers as to the feasibility of the idea.

It is pointed out that the incidence of Excess Profits Duty only takes money out of one pocket and puts it into another, and that what is really required is some scheme which will reduce the amount of our indebtedness abroad or convert such indebtedness into a loan payable over a fixed period out of future earnings.

It is, therefore, proposed that a levy be made on every trading undertaking, with a capital exceeding £5,000, of 10 per cent. on such capital, the levy being satisfied by the issue of ten-year notes carrying interest at 7 per cent. and repayable by annual instalments. It is suggested that negotiations be entered into with certain foreign trust companies to acquire these notes at a discount, the instalments of capital and interest being collected through agents here.

As such instalments would be a debt recoverable in the English Courts, the security offered would be a good one and preferable to an issue of a block of shares, as suggested in the Press some time ago by a prominent financier.

Further, the instalments would be payable out of profits, and consequently would not cripple industry as a capital levy payable immediately would do.

Apart from a restriction forbidding concerns from giving any fresh charge on their assets except subject to the note issue, the freedom of companies to deal with their property as they wished would not be affected.

The scheme certainly seems to be worth consideration, even if ultimately it should be found impracticable.

E.P.D. as part of Cost of Production.

We do not know whether our readers noticed that in the discussion on the Profiteering (Amendment) Act, Sir Robert Horne stated that Excess Profits Duty can be treated as part of the cost of production.

In the course of his speech he said :—

I gave my own opinion that these particular items were probably chargeable against the business before you came to assess the profits. I am glad to find that what I supposed ought to be the law upon the matter has been declared to be the law by the Court of Appeal. I find that the Court of Appeal laid it down that

“Excess Profits Duty is a sum of money which has to be paid to a third person as a debt of the company, and is therefore an outgoing which has to be paid before it can be ascertained what are the profits distributable.”

Notes.

It is perfectly plain in law that Excess Profits Duty is of an abnormal character and is a duty with which the company is charged before you arrive at what are the profits. Similarly, the Corporation Tax is of the same character as the Excess Profits Duty and not like income-tax. I propose that the committees which are dealing with profiteering throughout the country shall be instructed in accordance with these views.

As traders can charge the same *percentage rate of profit* (not rate per unit) as earned before the war, they will presumably be able to take a profit on both Excess Profits Duty and Corporation Duty, the burden of which will be borne by the consumer.

Some more qualified accountants are evidently needed in the House of Commons !

The Standardisation of Accounts.

Now that the war is over and the arrears of work are gradually being cleared off, accountants should have more time to devote to academic questions which nevertheless often have a very practical bearing.

One of such points is the possibility of laying down standardised forms of final accounts for various classes of concerns.

It is becoming more and more the practice for Trade Associations to collect statistics for comparative purposes, and very frequently the object in view is rendered almost impracticable by the difference in the classification of expenditure and presentation of the Balance Sheet figures existing in the various concerns.

It seems to us, therefore, that the Institute of Chartered Accountants, Society of Accountants and Auditors, and the Chartered Institute of Secretaries might jointly draw up standardised forms of accounts for various types of concern, with schedules showing the class of expenditure to be included under each heading.

Co-operation with the respective Trade Associations would also be desirable.

This work, if carried out, would be of inestimable value to the trades concerned, and also to financiers and members of the Stock Exchange.

We suggest that at the next autumnal meeting of the Institute some member should read a paper on the subject so as to provoke discussion.

Prize Competition.

We propose in next month's issue to inaugurate a series of competitions open to subscribers to the *Journal*, which will take the form of Essays, Problems, &c., on subjects of vital interest and importance to every student, and valuable prizes will be offered to successful competitors.

Competitors will be classified into two grades :—

(a) Intermediate.

(b) Final.

(a) Entrants being confined to those who are studying for the Intermediate Examination.

(b) Those studying for the Final Examination of any Accountancy body.

The Accountants' Journal.

Rules for Competitions.

(1) Competitors must write only on one side of foolscap paper. Essays must not exceed ten pages of foolscap. (2) A *nom de plume* must be used—the competitor's full name and address being enclosed in a sealed envelope. (3) All matter submitted **must** be original and the unaided work of the competitor. (4) Essays, &c., to reach the editor not later than the 15th of the month and to be marked in left-hand corner of the envelope with competition number. (5) The editor retains the right to use or publish any of the matter submitted for competition. (6) The decision of the editor upon any competition to be final.

The subjects for Competition No. 1, for August, are :—

(a) *Intermediate*.—"The best System of Recording and Paying Wages with a view to Costing."

(b) *Final*.—"A System of Bookkeeping from Original Documents."

Income Tax Notes and Comments.

Arrangements have been made to reply to Income Tax and Excess Profits Duty Queries by post, but only to actual subscribers. The replies will be published in the "Journal" under noms de plume. A stamped addressed envelope should be enclosed.

Repayment of Excess Profits Duty.

The increase of the Excess Profits Duty to 60 per cent. has an attractive side to the trader who is now suffering deficiencies as the allowance for deficiencies has to be made at the rate operative when the deficiency is incurred, and the amount of the deficiency, calculated at that rate, is then repaid against Duty paid in respect of prior accounting periods. The repayment is not of a deficiency below the standard against a prior excess over the standard, but of the percentage of the deficiency against the prior *Duty*. If e.g. a trader made his first excess of, say, £5,000 in the accounting period to 31st December 1919 and made a deficiency of £5,000 in the accounting period to 31st December 1920, he would have paid for 1919 on £5,000 at 40 per cent. = £2,000, and for 1920 his deficiency would be £5,000 at 60 per cent. = £3,000, so that the whole of the Duty paid for 1919 would be repaid and there would still be a balance of £1,000 to carry forward against subsequent liability, even though the profits of the two accounting periods had not been less than two years' standards.

Repayment is made against Duty of prior periods in chronological order, but this does not affect the amount of repayment.

Assume a pre-war standard of £10,000 and the following profits:—

Year to 31st December 1914	..	..	£	12,000
" " " 1915	..	..	15,000	
" " " 1916	..	..	16,000	
" " " 1917	..	..	20,000	
" " " 1918	..	..	18,000	
" " " 1919	..	..	8,000	
" " " 1920	..	..	4,000	

The Liabilities would be:—

1914 .. .. .	..	..	£	12,000	
Less Pre-war Standard ..	..	..	10,000		
			50%)	2,000	
					1,000
1915 .. .. .	..	..	15,000		
Less Pre-war Standard ..	..	..	10,000		
			60%)	5,000	
					3,000
1916 .. .. .	..	..	16,000		
Less Pre-war Standard ..	..	..	10,000		
			60%)	6,000	
					3,600
1917 .. .. .	..	..	20,000		
Less Pre-war Standard	10,000		
			80%)	10,000	
					8,000
1918	18,000		
Less Pre-war Standard	10,000		
			80%)	8,000	
					6,400
					£22,000

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The Deficiencies are :—

		£	£
1919	8,000	
Less Pre-war Standard	10,000	
		40%) 2,000	
			800
1920	4,000	
Less Pre-war Standard	.. .. .	10,000	
		60%) 6,000	
			3,600
			<u>£4,400</u>

These deficiencies would be repaid against the duties paid for 1914, 1915, and 1916.

The net Duty paid would thus be £22,000 — £4,400 = £17,600 on a net excess of :—

		£
1914	.. .. .	2,000
1915	.. .. .	5,000
1916	.. .. .	6,000
1917	.. .. .	10,000
1918	.. .. .	8,000
		£ 31,000
Less Deficiencies—1919	.. .. .	2,000
1920	.. .. .	6,000
		8,000
		<u>£23,000</u>

Farm Accounts.

It is asked by "Farmers" if the tithe rent charge in Ireland is correctly added back in arriving at the profits of a farmer. The Schedule A is allowed. Two of the clients farm largely and occupy separate dwelling-houses, and it is inquired if a proportion of the annual value of the residence can be deducted on the ground that a farmer must have a residence.

If the Schedule A assessment on the farm is allowed in arriving at the profit, the rent paid is added back. The allowance of the net Schedule A is to avoid the double assessment which would arise by the tax having already been paid under Schedule A. The rent paid is added back, because tax on the rent is retained by the farmer. The position of Tithe Rent Charge is the same if it is paid under deduction of tax. The farmer thus *suffers* no tax by the adding back of the Tithe Rent Charge. No deduction in respect of a residence not used for farming purposes can be made. The keeping of a residence is a *spending* of profits, not earning.

To claim assessment under Schedule D on the three years' average, it is necessary to give notice before 5th June. Rule 5 to Schedule B provides that, on a claim being made to be assessed under Schedule D, "the charge upon him for that year shall be under Schedule D," and the profits "shall for all purposes" be deemed to be profits chargeable under Schedule D. Rule 6 provides that, if the profits of the year

Income Tax Notes and Comments.

of assessment are less than the assessable value under Schedule B, the actual income may be taken, but there is no power to revert to the Schedule B value of double rent.

War Bonus.

“M. of M.” asks if a civil service war bonus is assessable to income-tax and if the three years’ average applies. It is also inquired if payments for retention of rooms by a travelling auditor who is unable to return each night are allowable under Schedule D.

The war bonus is assessable, as it is part of the remuneration for the services, being, in reality, additional salary, and chargeable exactly as if it were salary, i.e. on the basis of the year of assessment.

The payments for retention of rooms should be allowed, and, rather, the payments for the substituted rooms should be allowed, assuming that both the payments are made by the auditor. The payments for the substituted rooms are necessarily and solely incurred for the purpose of performing the work from which the profits are received. The sum is thus “wholly and exclusively” laid out for the purpose of the business within the rules of Schedule D.

Deduction of Tax from Rent.

It has now been held in the Court of Appeal that, if tax is not deducted from the *next* payment of rent made after payment of the tax, the tenant has no further right of deduction.

Directors’ Remuneration.

The Excess Profits Duty practice is to disallow increases of remuneration of directors, managers, and other persons concerned in the management of the business, and it is governed by the following rules:—

- (a) If the recipients have a substantial shareholding, the *whole* of the increase is disallowed.
- (b) If the recipients have not a substantial shareholding, £2,000 of the excess is allowed and the balance disallowed.

Section 49 (2) of the 1916 Act provides that, when the excess remuneration has been disallowed, the Duty paid on such excess may be recovered from the director or manager or person concerned in the management. If this recovery is made, the deduction of Excess Profits Duty for income-tax purposes is reduced accordingly as regards the employer and the allowance given to the employee.

The object of the disallowance of the increased remuneration is to avoid the inconsistency which would otherwise attach owing to the disallowance of *all* remuneration of *partners*. If the pre-war standard is a capital percentage and the directors have a controlling interest, the Revenue is empowered, by Section 49 (1) of the 1916 Act, to treat the company as if it were a firm when *all* the remuneration of the directors is added back but the capital percentage is increased to that of a firm.

Section 49 (2) is not obligatory on a company, but permissive, so that in many cases the company does not make any recovery.

Queries and Replies.

(Correspondents who wish to make use of this column are requested to write their queries on one side of the paper only and to be as brief as possible. There is no need to enclose a covering letter if the communication is headed "Accountants' Journal, Queries and Replies column," and signed at the end with the name and address of the sender, which will not be published if the query is signed with a nom de plume.)

Subscription Library.

I shall be grateful if you could inform me as to whether there is any subscription library for accountants other than that of the Students' Society, and also if you could advise me as to the best books on the following subjects, viz. Economics, Statistics, Finance, and Actuarial Science.—T. Y. W.

So far as we are aware there is no Subscription Library for accountants, although we believe Messrs. Gibson & Weldon—the well-known law coaches—issue law books to students on library subscription terms.

With regard to text-books on the subjects mentioned, there is a useful little work by Mr. A. Crew on "Elementary Economics" we can recommend.

The student should, however, also read Adam Smith and John Stuart Mill's works. With reference to the other subjects, we need more information of the particular requirements of "T. Y. W." before we can recommend any books to him.

The subjects of "Statistics" and "Finance" cover a large field.

Brewery Prices and Net Profits.

With reference to my query on pages 118-119 of the June number, the pronouncement I want is on the question of method in pricing any article in any business. My contention is that, if there are articles for sale (whether manufactured or purchased does not affect the question) to be priced, and the necessary gross profit which it is desired to place on each article in order that there may be a net profit has been ascertained, the method employed should be ad valorem. The examples given on page 118 are so priced that the first beer yields a gross profit of 32 per cent., and the second beer a gross profit of just under 27 per cent. By the figures shown on this page, it would appear that the first beer is of little value as a profit-earning article, and the second beer is of much greater value and is the better of the two. I am trying to prove that this is not so, and that the opposite is the case.

As to the question of oncost, the difference between the two beers can be clearly defined, for whereas the first beer would generally go out in one vessel,

Queries and Replies.

viz. a barrel, the second, as regards a very large quantity of it, goes out in half-pint bottles, and, therefore, in something like 600 vessels, instead of one. To divide, therefore, a certain total of expenses equally between a certain number of barrels, which in their delivery costs are so diverse as is shown here, is unsound. And my contention is, further, that to speak of barrels in the brewery business as units is to use a most misleading term, except when it is used in a very rough sense.—R. W. C.

In reply to "R. W. C.," it would certainly appear that in the case quoted the method adopted to allocate the oncost between the "bottled beer" and "draught beer" is incorrect.

The mistake is due to the attempt to treat two different units as the same when actually they are not comparable except after adjustment.

The quantity of beer in 18 dozen half-pint bottles may be the same as in a 36 gallon cask, but in addition to the extra cost of bottles, labels, and labour in bottling, the general overhead charges will be higher.

The proper method to adopt is to apportion the actual charges between the two departments in accordance with the facts, and then to calculate the rate per unit for each; if this be done there is no reason why the barrel should not be taken as the unit, as it forms the easiest unit of comparison.

Of course, up to a certain point the oncost per unit will be the same, and apportionment only becomes necessary as and when the process of bottling commences.

If the work is carried out simultaneously in the same premises, the allocation can be made in certain fixed proportions ascertained by investigation and test.

To divide the expenses on an *ad valorem* basis on selling price presupposes that the same rate of net profit is made on each, which probably is not a fact and which it is the object of the Cost Accounts to ascertain.

Books of the Month.

- INCOME TAX, 1920-21.** Returns for Assessment, Schedule D. A reprint of the official forms Nos. 1 and 11. Prices, post free, per copy 4½d., per dozen 4s., per 50 13s. 6d., per 50 bound 14s. 6d., per 100 25s. 6d., bound 26s. 6d. These forms are foolscap size, 6 pages, and printed on good quality paper. They will be found most useful to accountants and others for keeping complete copies of returns made. Extra pages are provided for Notes, Particulars of Assessment, Average Depreciation, Apportionment of Tax between partners, &c. &c.
- CHITTY'S ANNUAL STATUTES.** Vol. 20. Part I. Containing Statutes of practical utility passed in 1919 with incorporated enactments and selected Statutory Rules. By W. H. AGGS, M.A., LL.M. 10×6, xi+607 pp. 21s. n. This volume contains the principal legislation of the period of transition from war to peace. The laws affecting landlords and tenants are grouped together, and Mr. Aggs' notes are careful and complete.
- BUTTERWORTH'S WORKMEN'S COMPENSATION CASES.** Vol. XII. Edited by his Honour Judge RUEGG, K.C., DOUGLAS KNOCKER, Barrister-at-Law, and EDGAR T. DALE, Barrister-at-Law. 8½×5½, xxv+497 pp. 18s. 6d. n. Contains reports of every case heard in the House of Lords and Court of Appeal, England, and selected Scotch and Irish cases decided during the period December 1918 to January 1920. This is the 12th volume of a very useful series.
- THE WINDING-UP OF COMPANIES IN IRELAND.** By S. B. QUIN, F.C.A., and H. QUIN. 7½×4¾, 182 pp. 10s. 6d. n. A useful handbook for students and all who have to deal with the winding-up of companies in Ireland.
- ELEMENTARY ALGEBRA.** Part I. By C. V. DURELL, M.A., and G. W. PALMER, M.A. 7¼×4¾, xvi+256 pp. With answers to questions where intermediate work is required. 3s. 6d. With introduction and complete set of answers, 4s. 6d.
- BUSINESS ARITHMETIC.** First Year Course. By CHARLES PENDLEBURY and W. S. BEARD. 7¼×5, xxxviii+164 pp. With or without answers, 3s. 6d.
- THE EMPIRE'S WAR MEMORIAL and a Project for a British Imperial University of Commerce.** By ERNEST H. TAYLOR and J. B. BLACK, M.A., B.A. 9¼×6¼, 56 pp. (Paper cover.) 2s. 6d. This pamphlet, written while the authors were prisoners of war in Germany, sets out a detailed scheme for establishing an Imperial University of Commerce to give young men a commercial training on a university basis.
- THE PROBLEM OF DOCK LABOUR.** By ARTHUR SHADWELL, M.A., LL.D. Reprinted from *The Times*. 8½×5½, 30 pp. (Paper cover.) 1s. This pamphlet furnishes an interesting survey of the question, and is well worth perusal by those interested in labour problems.
- ROYAL COMMISSION ON THE INCOME TAX.** Index to the Seven Instalments of Evidence and Appendices. 13×8¼, 101 pp. 1s. 6d. n.
- NEW ZEALAND SOCIETY OF ACCOUNTANTS YEAR BOOK, 1919-20.** 7½×5, 118 pp. 2s.

[*Any of the publications noted in this column can be obtained from Gee & Co. (Publishers), Ltd., 14 Queen Victoria Street, E.C. 4, at the prices quoted.]

Legal Notes.

By Albert Crew, Barrister-at-Law.

An up-to-date knowledge of recent decisions in the Courts is of the greatest value to accountants and business men and to students reading for their examinations. In this column are noted the salient features of the leading cases decided during the preceding month.

Action (Cause of).

Duty of Auditor in Reference to Confidential Instructions.

The appellant (Weld Blundell) employed the defendant, a Chartered Accountant, for reward, and in connection with that employment sent him a letter of instructions defamatory of third persons. The respondent's partner mislaid the letter, with the result that the third persons became aware of its contents, sued the appellant for libel, and obtained substantial damages against him in respect of the publication of the libel to the respondent. The appellant then sued the respondent for damages for breach of an implied term of the contract of employment, namely, that the defendant was bound to keep the appellant's instructions secret. The Court of Appeal held that it was the duty of the respondent to keep secret the contents of the letter, but that the appellant could recover nominal damages and no more for the breach of this duty, any further damages being in the nature of an indemnity for the consequences of his own wilful wrong. An appeal to the House of Lords was dismissed, it being held that the actions for libel and the damages recovered were not the natural and probable consequences of the proved negligence of the respondent, but were the result of the appellant's wrongdoing. *Weld Blundell v. Stephens* (1919, 1 K.B. 520, and 1920, W.N. 205).

Protection of Common Trade Interests.

A person who induces another to do an act which is not wrongful so far as that other is concerned, can only be made legally responsible for its consequences if he has procured his object by the use of illegal means; and this proposition equally holds good when the inducers are a combination of persons, at all events where the combination is formed for the purpose of protecting the common trade interests of the combining persons, and the Act procured is incident to that purpose. *Davies v. Thomas* (1920, 36 T.L.R. 571).

Carrier.

Knowledge of that Goods Delivered for Carriage were Improperly Packed.

Where goods are delivered to a common carrier for carriage insufficiently packed, and are damaged in the course of the transit, the carrier's knowledge of their condition at the time of the receipt will not preclude him from setting up as a defence that the damage was due to insufficient packing. *Gould v. South-Eastern and Chatham Railway Co.* (1920, 2 K.B. 186).

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Companies.

Alteration of Objects of Memorandum.

The Companies (Consolidation) Act, 1908 (Section 9, Sub-section 3), provides that before confirming an alteration in the Memorandum of Association the Court must be satisfied that sufficient notice has been given to any persons or class of persons whose interests will, in the opinion of the Court, be affected by the alteration. It was held that the sub-section only applies to persons such as creditors and members of the company whose interests in the company itself will be affected by the alteration, and the Court will not, on a petition for confirmation of an alteration of the objects, hear a person having an interest outside the company that will be injuriously affected by the alteration. *In re Hearts of Oak Life and General Assurance Co.* (1920, 1 Ch. 544).

Issue of Debentures by Directors not Entitled under Articles to Vote.

A syndicate of five persons formed a private company in which they were the sole shareholders, and sold it for £15,000 in debentures of the company, property which they had, a few days before, acquired for £7,000. The contract for the sale and the issue of debentures was carried out at a meeting of the five, who there and then appointed themselves directors. This meeting was described in the minutes as a board meeting. The articles of the company provided that no director should vote in respect of any contract in which he might be interested. In the winding-up of the company, the liquidator claimed a declaration that the issue of the debentures was invalid. It was held that there being no suggestion of fraud, that the company was bound in a matter *intra vires* by the unanimous agreement of its members. Although the meeting was called a directors' meeting, all the five shareholders were present, and they might well have turned it into a general meeting and transacted the same business. In these circumstances, the issue of the debentures was not invalid. *In re Express Engineering Co.* (1920, 1 Ch. 466).

Contracts.

Legality of Agreement by Intending Purchasers for a Knock-out.

The subject matter of a sale being Government stores, the agreement that one party should abstain from bidding in order that the other should obtain the goods on the joint account at a lower price than they would have had to pay if they had bid against one another, was contrary to public policy, and was not enforceable. *Rawlings v. General Trading Co.* (1920, W.N. 211). *Quære*, whether the proposition applies to combinations not to bid at any sale whatever by public auction.

Sale of Goods and Tender of Delivery.

By a contract for the sale of 4,000 tons of meat, the sellers were allowed to tender for delivery within 2 per cent. more or less. The sellers considerably exceeded that allowance, and the buyers refused to take delivery. It was held that the Court would not make further variation, and the buyers were entitled to refuse to take delivery since where there is a limited variation in the amount to be delivered expressed between the parties to a contract, it should be adhered to, unless it be no more than a matter of a few pounds or ounces in the case of tons or hundredweights. *Payne v. Lillico* (1920, 36 T.L.R. 569).

Insurance.

Declaration of Full Value and Subsequent Renewals of Policy.

A car was insured in 1915, and, under the heading particulars of car, the assured filled in his estimate of present value as £250. The insurers, by the policy, agreed to indemnify the assured "to an amount not exceeding the

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full value of the car." The policy was renewed from year to year till 1919, when the car was destroyed by fire, the policy being still in force. The car had then appreciated in value. It was held that on the last renewal of the policy, the assured must be deemed to have renewed his estimate of the "present value" of the car as £250, and if at that date the car was worth more, the assured could recover only that amount, but if all the increase in value took place after that date the assured was entitled to recover the full value of the car at the time when it was destroyed. *Wilson v. Scottish Insurance Corporation* (1920, 36 T.L.R. 545).

Date of Termination of War.

By a policy of insurance effected on November 2nd 1918 the defendant agreed to pay to the plaintiff a certain sum in the event of peace between Great Britain and Germany not being concluded on or before June 30th 1919. On June 28th 1919 these Powers signed a treaty of peace, but did not exchange ratifications until January 1920. It was held that peace had not been concluded on or before June 30th 1919 within the meaning of the policy, and that the plaintiff was entitled to succeed in the action. *Kotzias v. Tyser* (1920, 2 K.B. 69).

Wills and Executors.

Condition as to Use of Summer Time.

A testatrix attached to a gift, either for the repair of the church or for the benefit of the poor of the parish, a condition that the services of the church should be held according "to the true time of the sun." It was held that, in view of the statutory introduction of what is known as "summer time," the condition was void as being against public policy. *In re Wood* (1920, 36 T.L.R. 560).

Construction of "Children," whether Illegitimate Children Included.

Where in a will words in the plural, e.g. sons, daughters, children are used to describe donees, and cannot be satisfied by treating the gift as one to legitimate children only, there being but one legitimate child, the illegitimate child or children may take under the gift, together with the legitimate. *In re Bleckly* (1920, 36 T.L.R. 246).

Construction of Bequest of Balance in "Said Bank."

By her last will originally drawn, the testatrix bequeathed certain legacies to several persons to be paid out of balance at the National Provincial Bank. Before the will was executed the name of the bank was cancelled, but reference was made in the executed will to the money standing to the credit at the said bank. It was held that the Court for the purposes of construction, was always entitled to look at the original will, including erasures, and that consequently, in referring to the original will, it was perfectly clear that the said bank meant the National Provincial. Until it was ascertained that she had more than one bank, there was insufficient description, but no ambiguity. When that fact was ascertained, a latent ambiguity arose, which could be explained by extrinsic evidence. The original will, with its erasures, could, therefore, also be looked at as extrinsic evidence under the latent ambiguity rule, and the same result followed. *In re Battie-Wrightson* (1920, W.N. 226).

Conditional Legacy if he Attempts to Assign it or to Become Bankrupt.

Testator, by his will dated December 21st 1911, bequeathed his real and personal estate to his trustees, and "out of my estate I desire my trustees to pay to my son Horace an annuity of £156, to be paid monthly, unless "he attempts to assign it or to become bankrupt. In these events, it shall

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"be entirely optional with my trustees to pay him the said annuity, my wish and intention being that the money is to be for his personal use to keep him from want." By a codicil dated September 10th 1918, the testator devised two farms to his son Horace for the term of his life, or until he should do some act to effectuate a sale or mortgage thereof, or which should forfeit the same in the case of bankruptcy, in either of which events the farms were to fall back into and form part of his residuary estate. Horace was adjudicated bankrupt on November 24th 1911, and his father was aware of the fact on December 21st 1911 and September 10th 1918. The father died September 13th 1918, and the son obtained his discharge on January 22nd 1919. The trustees took out an originating summons to determine—

1. Whether the annuity given to Horace (a) was payable to him or his trustee in bankruptcy, or (b) might be applied by the trustees for his benefit, or (c) had failed and formed part of, and was applicable as income of testator's residuary estate.
2. Whether the farms belonged to Horace or his trustee in bankruptcy during Horace's life, or ought to be held by the trustees of the will.

It was held that the doctrine of *Trappes v. Meredith* (1871, L.R., 7 Ch. 248) (an existing bankruptcy operates as a forfeiture, notwithstanding the words of futurity in the will and discretion given to the trustees) did not apply as regards the annuity of £156, which consequently was payable to Horace's trustee in bankruptcy, but with regard to the second question at the date of the will, Horace had already committed an act of bankruptcy which would result, but for the terms of the codicil in case of bankruptcy supervening, as it in fact did, in his losing or forfeiting his life interests in the farms, and under the doctrine of *Trappes v. Meredith*, the provisions of the codicil, though phrased in words of futurity, applied to the past event. Hence the farms in question had, ever since the testator's death, formed part of his residuary estate. *In re Evans* (1920, W.N. 215).

Life Estate to my Husband, "Knowing he will carry out my Wishes."

A testatrix bequeathed all her real and personal estate to her husband for his use and benefit during his life, "knowing he will carry out my wishes," and four days after the date of her will, signed an unattested memorandum, expressing her wishes that the money she left to her husband should, on his death, be equally divided among certain named beneficiaries. It was held that where the existence of a trust appears on the face of a will, but not upon the terms, those claiming under it must establish that the terms of the trust had been ascertained and its terms disclosed and communicated to the legatee at or before the execution of the will. The residue of the estate passed, therefore, to the husband, and in the event, which had happened, of his death intestate, devolved upon his statutory next-of-kin. *In re Gardner* (1920, 1 Ch. 501).

Devise of Freehold Rent Charge, Subsequent Purchase of Property Charged.

A testator, by his will made in 1894, specifically devised a rent charge of £15 per annum, charged on a freehold house, to his daughter absolutely. In 1913 he purchased the fee simple of the house, and his conveyance expressly stated that the rent charge should merge in the fee simple. He died in 1919. It was held that the devise of the rent charge had been adeemed, and that the daughter took no estate or interest in the house. *Re Bick-Edwards v. Bush* (1920, 1 Ch. 488).

Students' Society Notes.

Sheffield Chartered Accountants Students' Society.

We have now commenced a fresh course of lectures preparatory to the May 1921 examinations. This course is similar to the one just concluded for the recent examinations, and runs in conjunction with a correspondence course taken by students with Messrs. Foulks Lynch & Co., Ltd. The classes will be held as usual each Saturday morning at 9.30, Mr. F. C. Young, F.C.A., again taking the Accountancy and Auditing, and Mr. Raymond Meeke, LL.B., the legal subjects. Further particulars of the above course may be obtained from the Secretary of the Classes Committee (Mr. F. C. Young, F.C.A.), 45 Bank Street, Sheffield.

We again urge all students not only to attend regularly, but punctually, and we venture to suggest to one or two that Sheffield can boast of at least one shop where alarm clocks can be purchased at alarmingly cheap rates. (N.B.—These should be set at not later than 9.23 a.m.)

Next month we hope to be in a position to publish the Annual Report and Accounts for the year ended 30th April 1920, and any scathing condemnation which we may, and probably shall, feel compelled to make we will reserve till then.

In closing, we beg to express our appreciation of your editorial in the June *Journal*, and hope our students will take to heart your advice that they should practice the art of public speaking at Student Society meetings.

South Wales and Monmouthshire Chartered Accountants Students' Society.

The Society's third annual meeting was held at the Dorothy Café, Cardiff, on Tuesday, 8th June. Prior to the meeting, the President, Mr. R. H. March, F.C.A., kindly entertained the members to tea, and a large number attended.

The chief business of the meeting was the election of officers for the 1920-21 session, and the following appointments were made:—

President.—Mr. R. H. March, F.C.A.

Vice-Presidents.—Messrs. C. E. Dovey, F.C.A., T. Ivor Jones, F.C.A., W. Meacock, F.C.A., H. S. Metcalf, F.C.A., Wentworth H. Price, F.C.A., G. D. Shepherd, F.C.A.

**Hon. Secretary*.—W. J. James (Messrs. Jones, Robathan & Co., 8 Park Place, Cardiff).

Hon. Treasurer.—C. Shaw (Messrs. Noel & Shackell, West Bute Street, Cardiff).

**Hon. Librarian*.—L. A. Mitchell.

Hon Auditors.—D. J. Little and J. H. Cox.

Representative on Working Union of Students' Societies.—G. H. Bond.

Correspondent to Accountants' Journal, &c.—Dennis H. Morgan, A.C.A.

Committee.—C. Munn, A.C.A., E. L. Pope, A.C.A., E. J. Jenkins, *A. H. Lawrence, F. H. Lowther, J. T. Reddie, *H. R. Selmon.

(*Members of Joint Tuition Classes Committee.)

Efforts are being made to arrange a cricket match with the Bristol Students' Society at Weston-super-Mare early in July, and the members (most of whom have quite forgotten how many balls there are in an over!) are looking forward to this—the Society's first joint meeting—with great pleasure. May it be the forerunner of many more.

The Tuition Classes in Accountancy subjects recommenced on Saturday, 12th June. It is hoped that none of our May Final candidates will find it necessary to attend!

Rumour hath it that the Society is shortly to find a home—a library and meeting place. This is welcome news, and everything points to a record session.

Will members please note that subscriptions should now be paid to the Hon. Treasurer?

A Practical Scheme for Increasing Production—The Priestman Bonus System.*

By Major Crawford.

The cry for increased production has been heard on all sides since the war, but very few definite schemes to meet the need have as yet been put forward. The Secretary of the Higher Production Council describes below the Priestman Bonus System, which has been found very successful in operation and which he claims is a practical contribution towards the solution of the labour problem.

The lecturer said : I have no need to say, especially to an audience of this sort, composed entirely of experts in the business world, that I should not attempt to cover the whole subject of production at one meeting. What I propose to do is to call attention to one branch of the subject. I do not propose to elaborate the need for production, except to say this : that whatever theory of economics you may happen to hold, or believe in, we shall all, I think, agree that the great human need we all feel is to have as much of everything as we possibly can. If wages are to be effective there must be a large amount of commodities to make the wages of more value. You will all understand that money wages are nothing in themselves. With a printing machine and enough paper, anyone can have all the money he wants ; the great thing is to produce more, so that the money shall be effective. That is common ground. In the last year there has been a great deal of talk on the platform, and in the press—I might almost say in the pulpit—as to the need for more production, but there has been, I think, a singular lack of anything concrete or definite which is to produce more. We shall not get greater production simply by the rhetoric of politicians or statesmen. What I propose to offer to you is, I think, a practical contribution to the question : practical in this way, because I think it is based on things which lie at the root of a great deal that makes for labour unrest ; practical because it has been tried ; practical because it has succeeded where it has been tried ; and practical because I think it will stand criticism. Not only will it stand criticism practically, but I think it will theoretically.

Now although, as I say, this scheme is a concrete, definite, practical thing, it has implications which are a good deal wider than itself ; and so I am going to begin by suggesting that one of the causes of the lack of production—and there will be no debate as to there having been a

* A lecture delivered before the London Chartered Accountant Students Society on Wednesday, 14th April, Mr. John W. Woodthorpe, President of the Institute of Chartered Accountants, in the chair.

A Practical Scheme for Increasing Production.

certain slacking off of production, not only as compared with the war period but the period before the war—one of the reasons is that the attitude of people in general, and of the labour world, towards production has fundamentally changed. I have been through the country a great deal in the last six months, and I am convinced that one of the reasons for the slacking off of production is simply that everyone in the country is suffering from reaction. That, we may agree, will pass off. But apart from that, you have to recollect the fact that the labour world is not content to remain in the position in which it was before the war. Every wise man and every wise woman realises that. When I say it is not content to remain in the same position, I mean that if you or I invest £1,000 in a particular business there is no limit to the return we may get on that investment. Theoretically, there is no limit. There is a practical limit because the ordinary laws of economics come in, and if our return was very abundant we should be immediately subject to competition, which would reduce it. If, however, you and I work with our hands or with our brains, as a part of what is called the industrial class, there is a limit to what we can earn.

When the nation demands greater production from its workers, what it is, in effect, saying is this: that whereas at the present moment a man or a woman does so much work per hour, what we ask is that there shall be more work done per man per hour. That is a demand in simple terms for higher production. It is not for better management, or improvement in the consular service, the opening up of new markets, but it is that more work shall be done per man per hour. The Priestman system takes that as a basis, and it says: "If you ask a man, or a number of men working together, to produce a greater unit of output per unit of time than they have done before, then these men are entitled to be paid proportionately to the increase in the output." That is a perfectly simple thing. It says further that if you have, say, a thousand men working in an industry or factory, and these men are working together individually, you will not get the same result as you will if all these men are working together in co-operation.

I will give you a simple illustration of what I mean, taken from another sphere of life. Probably some of you have played football, and know that a team of moderate players who combine well is always more effective than a team of 11 individual geniuses who do not combine at all. If you adopt the Priestman system to industry you get better results in the same way. If that idea is true that is a criticism of what is known as piece-work. There is no need to explain what is meant by that. You do get certain improved results by piece-work; at the same time there have been very bad features in connection with piece-work in the past. It is no good arguing about it; the fact is that a good many employers who have got good results out of their employees by means of piece-work have subsequently reduced the piece-work rates, and so have robbed the employees of part of the wages which they had earned, and that has created, whether rightly or wrongly, a very strong prejudice in the minds of working men against piece-work. That is one reason against it.

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The other point is that if you and I are working together side by side at a bench in a factory, and you are a skilled workman and I am not, and we are paid on piece-work, if I want any help from you I am not going to get it because it is not to your interest to stop your work to give me help.

Another reason against piece-work is that if we are paid by piece-work there is a very large difference in the earnings of one man and another, and it does not follow that the man who earns least is necessarily the worst workman, because his work may be held back by someone who is behind him for whom he is compelled to wait; and therefore you get set up jealousies between one workman and another which often lead to bad feeling, and certainly do not lead to effective work. All these reasons appealed to those who started the Priestman system as reasons why you should substitute the spirit of co-operation for the spirit of competition.

I have given you two bases of the system; the third is that if you can get a proper spirit of working together between the masters and the men it is going to benefit everyone. It is going to benefit the firm, and it is going to benefit the employees, partly because they will get more wages, and partly also because, if they get more wages, then at the same time the purchasing power of the wages will be increased, because if this scheme is made universal, production is going up all round, and prices will go down and everyone will benefit.

What is the Priestman scheme? It is very simple. It consists in this, that wherever anything is produced—and I am personally prepared to go further and say, wherever any service is rendered, whether it be a factory or a railway company, or a solicitor's office—you set up a standard of efficiency. In the case of productive industries the normal standard of efficiency will be measured by the amount of output, provided that the output is of a high grade and not a low grade. Let us assume for the moment that we are in a bedstead factory, that you are the workmen and myself and your secretary are the directors. We want to put in the Priestman scheme. The first thing we should have to do would be to find out how many bedsteads we have been in the habit of making in a normal year. If we have been in operation for a number of years we take the average. We divide the average number for the year by 13, because there are 13 periods of four weeks in the year. If there has been anything abnormal in the working of the factory we shall make allowance for that. You have also the normal rate of wages—the trade union rate of wages for the district, which we will assume for the moment is not the subject of any dispute. Say the output was 100. We find in the first four weeks after putting in the scheme that the output has gone up to 110, then, in that case, every single employee from the office-boy up to the managing director, or as high as you wish to go, is paid 10 per cent. more wages for that four weeks. In the next four weeks the output may go up to 140, and the men get 40 per cent. more in wages.

A Practical Scheme for Increasing Production.

You may say, "Supposing that although you increase your output " to 140, yet owing to the conditions of the market you are not getting " as good a profit, how about that ? " The answer is that the men are not concerned with profit ; all they are concerned with is output. If they give extra output they are entitled to be paid for it.

Another thing. Supposing, after going up to 140, for some reason there is a sudden drop. Of course, you will not pay any bonus, but you will pay the normal rate of wage. But if in the next four months the output goes up, say to 120, and the loss on the previous four weeks was 10 per cent., then you would deduct that 10 per cent., and only pay a bonus of 10 per cent. instead of 20 per cent.

That, in outline, is the Priestman scheme. The way it is worked is this. In the particular industry in which it originated, Messrs. Priestman, of Hull, who make cranes, &c., estimate their product entirely by weight, because there the weight of the material produced is roughly proportionate to the amount of labour spent upon it. I want you to get clearly into your heads that the basis of this is not price but labour. You are paid not on the profit got but on the labour put into it. I will not elaborate that now. Let me say it is not always so simple to fix a standard for your output as in the case of cranes. Sometimes it is very difficult indeed, but we believe that somehow or other, by one method or another, you can always fix a satisfactory standard. That I will leave for the moment.

The way the scheme is worked at Messrs. Priestman's is that there is a Works Committee of men representing every department. That Works Committee meets every month and meets the managers. It has open to it all the books of the firm which refer to output, and between them the Works Committee and the management verify the amount of the output. That is posted up all over the place, the percentage over and above the standard and what the bonus will be. It is like the daily posting up of the run of a ship ; there is a growing excitement as to what the output will be, and it creates a very great interest at any rate.

I said a few minutes ago that, apart from the actual working of the scheme, there are advantages. First of all you get all the benefits of piece-work. It is to the men's interest to do their best, because you are helping up the output, but it is more than that. Supposing we have got a factory. I do not know how bedsteads are made, but I presume each department depends on the one before. You start with your individual parts of the body ; these are assembled, and then painted and varnished and put together, so that eventually it comes out complete. But each department depends on the one before, and it is to the advantage of each to help the other. If you help the other department, you are helping on your bonus.

They had been working the system for three years, and had had several good periods, with bonuses of 30 per cent., 40 per cent., and

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50 per cent., when one month it suddenly dropped to 10 per cent. It was the first time this had happened, and when the monthly meeting came round the Works Committee wanted to know the reason. The manager said he did not know; there were the figures and the books and the committee had better find out—there had been some slacking somewhere. Then one man said he knew perfectly well what had happened—this, that, and the other had been going on in one of the departments—the machine shop—all the month. So the committee went into the machine shop and said it had got to stop.

In that way the scheme is helpful, because it helps work; but it is more than that, because the greater part of the difficulties that crop up in a factory are due to causes concerned with discipline and supervision. If it was to the interests of the men to help others, nine-tenths of the policing, which is the bugbear of employment to-day, would be unnecessary. It would be done by the men themselves.

This scheme has got a good deal more than immediate benefits. I would like to touch on two of the further implications of the scheme. One is this—we shall all agree in this—that if you can get the men and management in a factory working together without suspicion, and without fear that one of them is being done by the other; if you can get a real spirit of co-operation, not merely a paper scheme, but one run like a football match, the advantage is obvious. The essence of the scheme is that there is not only co-operation in the work itself, but co-operation in running the scheme. It is done—I do not want to use the word “democratic,” because that savours of politics—but it is done with good feeling on both sides, without any *arriere pensee* on the part of men or masters.

And also this—and this is most important. You are aware that in political discussions on labour movements three things are put forward: first of all better wages; secondly, better conditions; and thirdly, what is called a greater share in the management of the industry. Now I want to refer for a few moments to the last. What is meant by a greater share in the management and control of industry? Suppose that all employers in England were, as some are, very pig-headed, and said, “We will have nothing to do with new-fangled ideas.” Sooner or later they are going to have this thing forced upon them. You will have some legislation proposed which will, perhaps, insist that two workmen, chosen by the workmen, shall sit on the Board of Directors of every industry. First of all you would get that change taking place in a bad atmosphere, with bad blood, and you will consequently run the risk of having ignorant men suddenly thrown into the management of a very difficult and technical business. But under the Priestman scheme what happens? Take the case I quoted to you where the output fell from 40 per cent. to 10 per cent. Suppose the Works Committee said there was no trouble at all, and themselves asked the management what was wrong. If they were entitled to ask that, they were entitled to an answer. It may have been due to coal supply, or to transport or markets. Before long these men will be beginning to learn the very things which go to make up the management of business,

A Practical Scheme for Increasing Production.

and so you will get a large number of employees who are not suddenly called upon to manage things they do not understand but are being trained for the task. That seems to me to be one of the most important advantages of the scheme.

I do not know that I have much more to say except this, that the thing has been tried with enormous success. Success in two ways. First of all, it is a material success, and I want you to understand that if it is a success for one set of people it is a success for the other. I want to give you a simple illustration. Supposing that out of £100 worth of product in four weeks we pay £30 in wages, £35 for raw materials, £20 for overhead charges, and there is a gross profit of 15 per cent. Now put in the Priestman scheme, and if the output goes up to £200, instead of paying £30 for wages you pay £60, instead of £35 for material you pay £70—probably a little less—instead of £20 for overhead charges £40—though, of course, the overhead charges will not be increased in proportion—and you have 30 per cent. profit.

You have doubled your profit as you have doubled your wages. As a matter of fact you have done more, because the overhead charges will not have doubled. That is what I mean when I say that everyone benefits. You pay more wages, but not only do wages go up but prices go down, providing the same thing is happening in other businesses; and you get an entirely new spirit in the relations between employers and employed. I say a new spirit, because if you went into Priestman's works and tried to tell the men they were being had, and that it was a device to get them to do double the work for less wages, they would laugh you to scorn. They would tell you to go away and learn something about business. If you asked them why people sitting in an office should share in the bonus they would laugh at you again, and say, "Of course they should, because the efficiency of their work helps us; if their work is not efficient, there is no demand for our output." They are entirely imbued with the idea of co-operation, and that is the beginning and end of what underlies the Priestman system. (Applause.)

Mr. Gibson said he would like to ask one question. A client of his was thinking of starting a bonus system, and he suggested to him the Priestman scheme. They were engineers, and their difficulty was they had no record of output, and they came to the conclusion they could only base it on turnover. They had been trying it, and he had not heard the results. He would like to know if the lecturer thought it was likely to be successful.

The lecturer said he thought money was a bad basis, and would rather put it on output.

Mr. Marwood said that in a factory in which he had been working the nature of the work was apt to vary.

The lecturer: You mean that the product varies. In that case, suppose you make a large number of products, it is clear you cannot take the numerical output as being the standard. You should introduce the point system. If you take all the products or groups of products which you make, you reckon the comparative time it takes to produce each. You then allot to each a point value proportionate

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to the number of man hours spent on the manufacture. To get the normal products you multiply the point value by the number of each article constructed. Provided your point values are accurate, it does not matter whether you change from one to another so long as you multiply the number of each product by the point value.

Mr. Dawe said they had listened with great interest to the lecture. It appeared to him that the root of the whole matter was co-operation. One or two things had occurred to him as the lecturer went along. The effect of the institution of the system seemed to have been to increase materially the wages of the various workmen, and he had been wondering what the effect had been on what was called absenteeism. The experience in collieries had been unfortunate during the war. They had had many increases of wages, and very substantial ones, and they had found that, every time, there had been an increase of absenteeism as though it meant that the men were not anxious to earn more than a certain sum. They appeared to place a limit on their own earnings. One would have thought the men, considering the demand for coal and the vital importance of the supply, would have applied themselves to their work and earned as much as they could. It was not a question of sympathy between masters and men; it seemed rather as if they were overpaid, and that when they had earned a certain amount they knocked off work. Another point which had occurred to him was that there was a difficulty at times in fixing a basis of production. This was especially the case with regard to repair work. It was extremely difficult in a great many concerns to form any basis of output on repair work. In one company the plan had been adopted of paying a bonus on the estimated time taken on a particular job. Say a motor car came in; it was estimated it would take four weeks to repair, and if the work was done in three weeks a bonus of 10 per cent. was paid on the wages. The men were very keen in that shop to get the work done.

The lecturer said the question of absenteeism was a very complicated thing, and he did not pretend to be able to answer it. The coal industry was one that was extraordinarily difficult, the wage system being so complicated. He was not aware how far the conditions of the industry made for absenteeism more than another, but he was perfectly sure that restriction in general was a thing which had been preached, and which had been absorbed by a lot of men, but it was a sheer mistake. A lot of people went about and said, "You are doing another man out of a job," but this was based on error. As against that, one wanted to put the policy of abundance. As to repairs, of course, it depended on whether the speaker meant repairs to their own machinery or repairs that came in to be done—outside repair work. What he had suggested was to get the relation between wages output in the works generally, then take the amount of wages paid for repair work, get the corresponding amount of output, and add it to the general output. He knew a system of paying bonus on the time saved, but the great disadvantage of all those things, although they might be better than nothing, was that they were not fair. If a man saved 25 per cent. of his time he ought not to get 10 per cent., but 25 per cent. more.

A Practical Scheme for Increasing Production.

Mr. Page asked how they got standard outputs in seasonable trades.

The lecturer said the answer to that was exactly the same as if they said there were periods of bad trade. In a period of bad trade they worked short time, and the output could be assumed.

Mr. Davies asked what was the attitude of trade unions to the scheme.

The lecturer said that there had been that afternoon a meeting of the Higher Production Council, at which four members of trade unions attended. Some of the trade unions were opposed to production and looked at over-production with suspicion, but that was another story. The question of over-production and unemployment was a very important one, but in the Priestman case the trade unions were sympathetic. They regarded it as a good scheme.

Mr. Gibson proposed a hearty vote of thanks to the lecturer, which was seconded by Mr. Ashley, and carried unanimously.

Mr. Dawe proposed a vote of thanks to the chairman, which was seconded by Major Crawford and carried unanimously.

The Chairman said it had been a great pleasure to him to be present that evening. He had always taken a great interest in the Students' Society and had acted as auditor for it for at least a quarter of a century. They had had a most interesting lecture on what appeared to be a practical scheme for increasing production. It had been very ably dealt with by Major Crawford, and it appeared to be one that should certainly be adopted wherever it was possible to adopt it. In a scheme of that kind a certain amount of inefficiency might creep in, but if it could be worked in conjunction with efficiency it would be a very good thing. He thanked the members for their vote of thanks, and would be only too glad to come again when the Secretary was short of someone to take the chair.

National Guild of Accountants' Clerks.

Is a "Whitley Council" Practicable?

Is a "Whitley Council" for the accountancy profession practicable? The Council of the Institute of Chartered Accountants replies in the negative, whilst the Council of the National Guild of Accountants' Clerks replies in the affirmative.

The question leads to the further question: Is the present state of affairs conducive to the best results for the profession as a whole?

In order to maintain the traditions of the profession, it is essential that the "rank and file" should give of its best. Are they doing so at the present time? And can they reasonably be expected to do so in the existing circumstances?

It is safe to say that most accountants' clerks are literally compelled to undertake evening work in order to "make both ends meet." To say nothing of home life and individual health and comfort, does such a state of affairs tend to efficiency?

Is the clerk who is compelled to continue his daily task until 10 p.m. or later, nearly every day of his life, in a fit state of mind to give of his best either to his employer or to his employer's client?

If the client pays a reasonable fee, he is fully justified in expecting the best service, and if the fee paid is unreasonable, then more should be charged.

If the practising accountant receives a reasonable fee for services rendered he should be able to reward in a suitable manner those by whom the work is done. If he is not able to do so, then there is something radically wrong with the profession.

Over fifty "Whitley Councils" are now in existence, and yet the "Masters of figures" are quite unable to apply a similar institution to their profession. Furthermore, they are quite unable to "grade the clerks."

If accountants' clerks' work is not being charged for according to the grade of the clerks employed in every accountants' office throughout the land to-day, perhaps one of the practising accountants will be good enough to enlighten us through the medium of the *Accountants Journal*.

The practicability of a "Whitley Council" has not yet been fully considered by the Councils of the Institute and Society, and it *cannot* be fully considered without *both* sides of the question being laid before them.

It would seem that any impartial Board would be obliged to award a higher scale of salaries than is at present paid generally to the clerks, and perhaps this plain fact accounts for the dislike of a "Whitley Council" on the part of the employers, who have failed hitherto to advance any alternative scheme.

The resolutions passed recently at numerous mass meetings throughout the country should prove a timely warning to those responsible, who are invited to submit a better proposition than the proposed "Whitley Council" as a means to prevent an unfortunate culmination to the existing widespread dissatisfaction amongst the clerks in the "Outer Office."

If the employers are sincere, what is there to prevent them at least meeting the clerks' representatives at a round-table conference (*in camera*), in order to hear the other side of the question?

If they are not sincere, then the only alternative is to lay the plain facts before the public.

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(Incorporating the Accountants' Students' Journal and the Administrator.)

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No. 448

A Company Secretary's Duties—III.

By W. H. Fox.

(Author of "The Company Secretary.")

In his third article Mr. Fox deals with the duties of a Company Secretary as regards the registration and filing of various documents, and the penalties for failing to comply with the statutory requirements. Pro forma examples of a Register of Members, Share Transfer Register, Share Transfer Deed, and Share Certificates are given.

Share Register, Share Transfers and Certificates, and Share Warrants to Bearer.

Section 25 of the Companies Consolidation Act, 1908, provides that every company shall keep in one or more books a Register of its members, containing the following particulars:—

- (1) Names, addresses, and occupations of the members.
- (2) A statement of the shares held by each member in the case of a company having a share capital.
- (3) The distinguishing numbers of the shares held by each member.
- (4) The amount paid or agreed to be considered as paid by such members.
- (5) The date of entry of a member's name on the register.
- (6) The date at which any person ceases to be a member.

If the company makes default in complying with this section it is liable to a fine of £5 per day, and every director and manager of the company permitting the default is liable to a like penalty.

It is customary for Registers of Members to be prepared, by those who claim to be experts in such matters, with a multiplicity of columns, the greater part of which are quite unnecessary and only serve to cause needless delay and complications in arriving at definite results and taking out the balances for the preparation of the annual list of members, &c.

Time may be saved by using a form more or less of the nature of an ordinary commercial Ledger Account, from which balances may be taken and agreed without difficulty from time to time.

As a further means of simplifying the work on the Register of Members it will be convenient—and especially in the case of a small company—instead of having the book in the form of a regular Debit

REGISTER OF MEMBERS.

Christian Name—Thomas.
Surname—CRUMWELL.
Description—Barrister-at-Law.

Address—Austin Friars,
 Old Broad Street,
 London, E.C.

(1) Date of entry as a Member <i>Date of ceasing to be a Member</i>	(2) Allotment or Transfer Deed No.	(3) No. of Shares acquired or Shares transferred	(4) Cash Book folio	(5) Amounts paid on Shares acquired or Shares transferred	(6) Register folio Shares acquired or Shares transferred	(7) Distinctive Numbers (inclusive) Shares acquired or Shares transferred	(8) Certificate No. Shares acquired or Shares transferred	(9) Remarks
1920 January 1	At. 5	Cr. 1	3	£ s d 0 1 0		5	6	Signatory
March 1	At. 8	Cr. 93	3	4 13 0		8-100	6	
			25	88 7 0				
			29	0 19 0				
May 31	Tr. 25	Cr. 106	—	106 0 0		4001/4106	125	
		200		200 0 0				
June 30	Tr. 42	Dr. 50		50 0 0		58/50. 4101/6		
		150		150 0 0		51/100 4001/100		Balance 30th June 1920

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and Credit Ledger Account, to treat all the shares acquired as "Credit" entries. When shares are transferred the entries may be treated as "debits" and entered in red ink and deducted from the total of the shares held, so that at any time the balance on the account may be shown.

The above form is a specimen account of a shareholder appearing in the Register of Members prepared on this principle.

If the foregoing form of account in the Register is adopted it will be found that in the case of an active account one single total of the shares acquired in black ink and one single total of the shares transferred in red ink can be cast at the bottom of the page. These totals can be carried forward page after page until the period comes for balancing, and thus agreed at the end of any given period with the totals appearing in the Register of Transfers.

It will also be noticed in the form there is included a column (No. 8) in which reference is given to the distinctive numbers of certificates relating to the shares acquired and also to those transferred; and this, in practice, is found a convenience in settling any query arising in connection with a member's account.

If preferred, the member's account may be treated as a Debit and Credit Ledger Account, but treating the Register in this way means that twice the space is occupied.

Entries in the Register of Members are in the first place made from the allotment list to the credit of the various members' accounts. Subsequent entries are made from the Transfer Register hereinafter mentioned.

Section 26 of the 1908 Act provides that every company having a share capital must, under a penalty payable by the company of £5 per day and also a similar fine for every director and manager permitting the default, file with the Registrar of Companies a copy of the annual list and summary within seven days of the 14th day after the date of the first annual general meeting of the company.

This annual list and summary—which, owing to official stupidity, is to be prepared as on the 14th day *after* the general meeting instead of at the date of the general meeting—forms part of the Register of Members. The following is a summary of the information which it must contain, namely, (1) a list of all persons who are members of the company or who have ceased to be members since the previous return, including their names, addresses, and occupations, with the number of shares held by them or transferred since the previous return, with the date of the transfers (a distinction must be made in the summary between the shares issued for cash and shares issued as fully or partially paid up). (2) The amount of share capital and the number of shares into which it is divided. (3) The number of shares taken up and the amounts called up on the shares. (4) The amounts paid by way of commission for placing shares. (5) The total number of shares forfeited. (6) The amount of share warrants issued and outstanding and surrendered since the previous return, and the number of shares comprised in each share warrant. (7) The names and addresses of the directors. (8) Amounts due in respect of all mortgages and charges outstanding.

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The return must also include a statement in the form of a Balance Sheet which has been audited by the company's auditors, but it is not necessary to include therein a statement of profit and loss. It is sufficient if a note on the Balance Sheet is put to the effect that it has been audited by the company's auditors, mentioning their name.

As regards the date of the Balance Sheet, the wording of Section 26 (Subsection 3) is that the statement must be "made up to such date as may be specified in the statement in the form of a Balance Sheet." It will thus be observed that a company is at liberty, if the directors see fit, to file a copy of the first Balance Sheet prepared and audited and to keep on repeating a copy of the same Balance Sheet on every subsequent annual return. The Somerset House authorities, notwithstanding they made objection, have been compelled, in more than one instance, to accept a copy of the same Balance Sheet year after year, although doubtless this is not at all what was intended when the Companies Act of 1908 was passed.

The full details of this annual return are too elaborate to include in the present article, but a copy of the form may be obtained at any law stationers or at the Companies Department, Room 7, Somerset House, price threepence.

Owing to the fact that the filed copy of the return has to be signed by the manager or the secretary, it is customary to consider this as the original, whereas the original must be included in the actual Register of Members, and, therefore, it is merely a copy which is filed with the Registrar.

By Section 27 of the Act no notice of any trust expressed, implied, or constructive shall be entered on the Register of Members.

Under Section 30 of the Act the Register of Members must be kept at the registered offices of the company, and it is open to any member to inspect the same gratis, and to any other person on payment of one shilling.

This inspection is subject to the company having the power by advertisement in some local newspaper to close the Register for 30 days during each year for preparing dividend lists, &c.

Section 32 of the Act provides that if any name is improperly omitted from the Register of Members or default is made in entering the name of a person entitled to shares, the company or any member thereof may apply to the Court for rectification of the Register.

After the shares have once been entered in the Register of Members their ownership can only be effected by transfer. On the next page is a form of Transfer Register.

In this form the name and address of the transferee who acquires the shares (which are entered in the register to his credit) are entered in black, and the corresponding entries—including the transferor's name, which appear in italics—are entered in red ink.

The Share Transfer Register—with the exceptions hereinafter mentioned—is written up from the Share Transfer Deeds, which are lodged with the company. The ordinary form of deed as approved by the Stock Exchange is given on p. 198.

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SHARE TRANSFER REGISTER.

(1) Serial No.	(2) Date of Transfer	(3) Transferor's Name and Address	(4) Old Certificate No.	(5) Transferor's Folio in Register	(6) No. of Shares transferred	(7) Transferee's Folio in Register	(8) Date of entry as a Member	(9) Transferee's Name, Address and Description	(10) Distinctive Nos. of Shares transferred	(11) New Certificate No.
31	1920 May 31	James GRAHAM, 333 Great Swan Alley, London, E.C.2.	Forward		45,622 106		1920 May 31	Thomas Crumwell, Austin Friars, Old Broad Street, London, E.C. (Barrister-at-Law)	4001/4106	
32	June 30	Charles KING, 14 Queen's Road, Putney, S.W.			900		June 30	Share Warrants to Bearer	25,001/25,900	
33	Sept. 1	Share Warrants to Bearer			250		Sept. 1	George Harding, 94 Market Street, Leicester	19,001/39,250	
Shares transferred during Six months					46,878					

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Stamp

25/-

I, JAMES GRAHAM, of No. 333 Great Swan Alley, London, E.C. 2, Actuary, in consideration of the Sum of One Hundred and Six Pounds paid by THOMAS CRUMWELL, of Austin Friars, Old Broad Street, in the City of London, Barrister-at-Law, hereinafter called the said Transferee,

Do hereby bargain, sell, assign and transfer to the said Transferee 106 Fully Paid Shares of £1 each, numbered 4,001 to 4,106 inclusive, of and in the undertaking called the "MERRIE ENGLAND," LIMITED.

To hold unto the said Transferee, his Executors, Administrators, and Assigns, subject to the several conditions on which I held the same immediately before the execution hereof; and I, the said Transferee, do hereby agree to accept and take the said Shares, subject to the conditions aforesaid.

As Witness our Hands and Seals, this 31st day of May, in the Year of our Lord, One Thousand Nine Hundred and Twenty.

Signed, sealed, and delivered, by the above-named JAMES GRAHAM in the presence of

Signature of Witness—HENRY CRONDACE,

Address—69 Lombard Street, London, E.C.

Occupation—Capitalist.

JAMES GRAHAM

Seal

Signed, sealed and delivered, by the above-named THOMAS CRUMWELL in the presence of

Signature of Witness—THOMAS BOLEYN,

Address—Rochford Hall, Essex.

Occupation—Knight.

THOMAS CRUMWELL

Seal

[SEE DECLARATION AT BACK HEREOF.]

DECLARATION BY TRANSFEROR.

I hereby declare that I am not a person resident or carrying on business in any country at war with Great Britain, or treated as an enemy under any proclamation relating to trading with the enemy, or mentioned, or a member of a body of persons mentioned, in the Statutory List under the Trading with the Enemy (Statutory List) Proclamation, 1916, No. 3, and that the within written transfer is not made by me/us on behalf of any such person as aforesaid.

(Signature) JAMES GRAHAM.

DECLARATION BY TRANSFEE.

I hereby declare that I am not a person resident or carrying on business in any country at war with Great Britain, or treated as an enemy under any proclamation relating to trading with the enemy, or mentioned, or a member of a body of persons mentioned, in the Statutory List under the Trading with the Enemy (Statutory List) Proclamation, 1916, No. 3, or an enemy subject within the meaning of the Trading with the Enemy Amendment Act, 1916, and that the within written transfer is not made to me/us for the benefit of any such person as aforesaid.

(Signature) THOMAS CRUMWELL.

Coupon for £106. Stock forwarded to the Company's Office by

A Company Secretary's Duties.

The deed of transfer of shares, with the relative certificate, will be lodged with the company by the transferee or his agents, and will be brought before the Board in due course for passing. New certificates will be prepared and sealed at the same time. The company will issue a balance certificate in the event of only part of the shares included in the transferor's certificate being sold.

In the case of the consideration money stated on the deed being, in the view of the secretary, not in proportion to the number of shares transferred, it will be necessary for him to inquire into the transaction and perhaps desirable to return the transfer in order that it may be certified by the Inland Revenue authorities. This Government Department is in the habit of trying to force upon the secretary the responsibility for incorrect stamping, but this is probably only one of the attempts by officials to put responsibility upon shoulders where it does not belong.

There are various other cases in which it may be necessary to make transfers of shares in the company's books where actual deeds are not produced, and the following are examples of these special transactions :

- (1) Registration of probate where the actual probate issued to the executors of a deceased member is produced for registration and the names of the executors have to be inserted in the Register. A fee of 5s. is usually charged for this.
- (2) In the event of the holder of Share Warrants being desirous of transferring into registered shares and having his name put upon the Register accordingly.
- (3) Where the holder of registered shares desires to have Share Warrants in place of the same, in which case the company will usually charge him a proportionate cost of the printing of the Share Warrants and the Government Stamp Duty.
- (4) Where a female shareholder is married or where a shareholder changes his name a declaration on the subject must accompany the request for the change to be made in the Register of Members and upon the Share Certificate.
- (5) In the event of the bankruptcy of a member the trustee may have the shares transferred into his own name, but he will be unwise to do so unless the shares are fully paid.
- (6) Forfeiture of shares. When, after due notice has been given to the member and his calls have not been paid, a resolution of the Board may be passed forfeiting the shares, and the same will accordingly be transferred to a " Forfeited Shares " Account in the Share Register.

In all the above-mentioned six classes of transfer other than by ordinary transfer deed it will be necessary, in order to keep the records of the company complete, to enter upon a foolscap sheet the particulars of the transfer and to keep this document with the actual transfer deeds so that the entries may be made in the Share Transfer Register.

Under Section 92 of the 1908 Act every company shall within two months after the allotment of any shares or within two months of the registration of transfers of shares, complete and have ready for delivery the relative share certificates under penalty by which the company is liable for payment of £5 a day and any director or other officer who is a party to such default. The following is a form of Share Certificate :—

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"MERRIE ENGLAND," LIMITED.

No. 199.

RECEIPT FOR CERTIFICATE

WHEN SENT BY POST

No. 199.

Certificate for Ordinary Shares of
£1 each.

Number of Shares 106.

Share Numbers . . . 4,001 to 4,106.

Name . . . THOMAS CRUMWELL.

Address—Austin Friars, Old Broad
Street, London, E.C., Barrister-
at-Law.

Dated 31st May 1920.

Certificate forwarded to THOMAS
CRUMWELL, as above, on the 1st
day of June 1920.

NOTE.—The Company will not transfer any of the above Shares without the production of a Certificate relating to such Shares, which Certificate must be
surrendered before any Deed of Transfer, whether for the whole or any portion thereof, can be registered or a new Certificate issued in exchange.

No. 199.

CERTIFICATE FOR 106 ORDINARY SHARES OF £1 EACH.

"MERRIE ENGLAND," LIMITED.

Incorporated under The Companies Acts, 1908 to 1917.

CAPITAL .. £200,000.

Divided into 200,000 Ordinary Shares of £1 each.

To be signed and returned to the

Secretary of

"MERRIE ENGLAND," LIMITED,

12 Great Swan Alley,

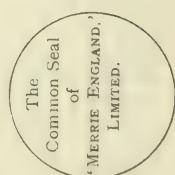
LONDON, E.C. 2.

This is to Certify that THOMAS CRUMWELL, of Austin Friars, Old Broad Street, London, E.C. (Barrister-at-Law), is the Registered Holder of One Hundred and Six Ordinary Shares of ONE POUND each, Numbered 4001 to 4106 inclusive, in "MERRIE ENGLAND," LIMITED, subject to the provisions of the Memorandum and Articles of Association of the said Company, and that there has been paid up in respect of each Share the sum of Twenty Shillings.

Given under the Common Seal of the
Company, this 31st day of May 1920.

A. B. }
C. D. } *Directors.*

G. H., *Secretary.*



A Company Secretary's Duties.

It will be observed that between the counterfoil and the Share Certificate is affixed a form of receipt which will be filled up and forwarded to the shareholder when the certificate is sent. These forms of receipt will be attached to the counterfoil in the Share Certificate book immediately they are returned by the holder, and the counterfoils should be constantly looked through to see whether any certificates have been sent out and not acknowledged.

The Share Certificate for registered shares is *prima facie* evidence of ownership, but the actual title of the shares is the record in the Register of Members. Should the certificate be lost, the company will be prepared on such evidence as the solicitors may advise, including a statutory declaration of the facts, to grant a fresh certificate, but great care must be exercised in any operation of this nature.

As opposed to the Share Certificate representing *registered* shares, the articles of association of most companies contain powers for the issue of Share Warrants to Bearer. These warrants constitute the actual title to the shares and require to be stamped with an amount equivalent to three times the ordinary stamp duty. Ownership of these "Bearer" shares passes from one to another by the actual delivery of the document. The following is a form of Share Warrant to Bearer :—

No.

No. of £1 Shares, 100.

"MERRIE ENGLAND," LIMITED.

Share Warrant to Bearer

For Ordinary Shares of £1 each.

THIS IS TO CERTIFY that the Bearer of this Warrant is the proprietor of ONE HUNDRED fully-paid Ordinary Shares of ONE POUND each in the capital of "MERRIE ENGLAND," LTD., numbered to inclusive, subject to the terms of the Memorandum of Association and the regulations of the company for the time being.

GIVEN under the Common Seal of the Company this 1st day of July 1920.

A. B.,
C. D.,
Directors.
G. H.,
Secretary.

REGULATIONS.

In order to enable the holder of this Warrant to vote at any meeting of the Company it will be necessary for him to deposit this Warrant with the Company, at the Registered Office, two clear days before the day of the meeting.

On the declaration of any Dividend on these Shares, the rate per share or per cent., and the date of payment and number of Coupon to be presented will be notified by public advertisement, and the Coupon in respect thereto will be paid at the Registered Office of the Company in London, or at its option at some other place to be nominated from time to time by the Company. Coupons must be deposited three clear days for examination.

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The holder for the time being of this Share Warrant to Bearer may become registered as the owner of the Shares therein mentioned, on making the necessary request to the Company in writing and surrendering this Warrant together with the outstanding Coupons, and paying to the Company such sum as the directors may from time to time prescribe.

The Company is entitled to treat the bearer hereof for the time being as the absolute owner of the Shares herein mentioned, and the bearer of each Coupon attached as the only person entitled to the Dividend mentioned in such Coupon, and the delivery to the Company of such Coupon shall be an absolute discharge to it in respect of such Dividend.

" MERRIE ENGLAND," LIMITED, LONDON.

Share Warrant to Bearer No.

100 ORDINARY SHARES £1 COUPON.

Coupon for amount of Dividend on 100 Ordinary Shares payable at the Registered Office of the Company in London, or at its option at some other place to be nominated from time to time by the Company.

G. H.,
Secretary.

The dividend coupons attached have to be surrendered when payment is made. The amounts and dates of payment of the dividends on these " bearer " shares cannot be ascertained until the Company's accounts have been prepared and the dividends declared.

NOTE.

Owing to the length of the present article it has been found necessary to defer the question of "dividends" until next month.

The Principles of Costing.

Mr. Cathles' fourth article on this subject, which deals with the Allocation of Oncost, will appear next month.—Ed.

The Money Market.—II.

The Influences of Government Borrowings on the Money Market.

By J. H. McCall, F.S.A.A.

The following article explains the position of the Bank of England as the medium through which the Government controls the market. The fixing of the Bank Rate and the effects when it is raised or lowered are fully dealt with.

The Bank Rate as a means of Regulating the Flow of Money.

We have seen why it is that at the present time the British Government exercises so great an influence upon the money market. As a consequence of its huge floating debt it has had to secure preferential treatment amongst the borrowers who come to the market. The Government must, however, in the ordinary course, in addition to its own immediate requirements, take into consideration various factors, as, for instance :—

- (a) The condition of the foreign exchanges,
- (b) The gold reserve of the country,
- (c) Its own requirements, and
- (d) The industrial needs of the country.

The Government took direct action during the war by restricting the export of gold, and by restricting capital issues on the market, but normally it indirectly influences the market through its agent the Bank of England.

The Bank of England is able to exercise a control on the flow of money owing to its unique position. It is the banker and agent of the State ; it holds the gold reserve of the country ; it keeps the reserves of all the larger banks and discount houses ; and it fixes the Bank Rate week by week. It must, in addition, publish weekly the " Bank Return," which may be called the barometer of the money market.

The Bank of England from time to time fixes what is known as " The Bank Rate." As this rate, when it is changed, has the effect of altering all other rates, it is important to understand what the various rates prevailing in London are. We will specifically deal with each rate and its objects.

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(a) The Bank Rate. This is the advertised official minimum charged by the Bank of England for discounting first-class bills, and is fixed by the Bank Court at their weekly meeting each Thursday.

(b) The Bank of England Loan Rate. This is usually fixed slightly higher than the discount rate.

(c) The Market Rate of Discount. This is the rate charged by bill-brokers and bankers for discounting bills. Two quotations are given—the lower one for first-class bills, and the higher rate for second-class or trade bills. This rate is usually somewhat lower than the Bank Rate, and is generally varied directly with the Bank Rate, so that a movement of the one will affect the other.

(d) Other Bankers' Deposit Rate. This is the rate of interest which banks other than the Bank of England will allow to their customers on balances on deposit. It bears a fixed relation to the Bank Rate, usually being $1\frac{1}{2}$ per cent. below. There may be, however, exceptional circumstances, as when the Bank Rate is abnormally high or low, when the committee of clearing bankers may fix it on some other basis.

(e) The Bankers' Call Rate and Seven Day Rate. This is the rate charged by bankers for loans to bill-brokers and others, repayable on short notice.

(f) Bank interest charged by banks to their customers for ordinary loans or over-drafts. This is generally fixed also in relation to the Bank Rate.

The rates quoted in *The Times* for 15th July 1920 were as follows :—

Bank Rate 7 per cent.

Market Rate of Discount $6\frac{1}{8}$ — $6\frac{5}{8}$.

Other Bankers' Deposit Rate 5 per cent.

Bankers' Call Rate and Seven Day Rate $5-4\frac{1}{2}$ per cent.

It will be seen that a movement in the Bank Rate has an effect upon all other rates, and it follows, therefore, that a movement in the price of money has also the effect of attracting or otherwise money to the market.

There are two conditions to be maintained when considering the advisability of stiffening the rates in order to influence the movement of gold, viz. :—

(a) The absolute necessity for maintaining a sufficient reserve of gold at the Bank of England, and

(b) The necessity for correcting adverse conditions of foreign exchanges.

The Money Market.

In order to appreciate these conditions, it should be understood why it is necessary to maintain a gold reserve. The currency of this country is based upon the gold standard of value. The business of the country is carried on by means of credit. Debts are not paid in legal tender but by bills, cheques, and other instruments of credit. These are mere transfers of a present right to a future possession of money, with varying periods of circulation according to their nature. Cheques are usually presented at once for payment when paid into a bank. Bills of exchange may circulate during the period in which they are current. Bank-notes and Treasury notes are circulated as freely as coins of the realm, and it is because of this that certain regulations governing the issue of the former have been made. This paper currency depends for its stability upon the amount of gold which is held in reserve to support the system. There are two theories relating to the method of governing the note issue:—

(a) *The currency theory*, which may be stated as follows: “In issuing bank-notes, care should be taken that the amount in circulation should always be the same as the amount of gold, provided the notes did not exist.”

(b) *The banking system*, which urges that the only consideration a banker need bear in mind in regulating issues, is whether the issue is for legitimate banking transactions and not speculative dealings.

These two theories relate, of course, to the issue of bank-notes, and under the Bank Charter Act, 1844, which was a compromise between the two theories, it was provided that the Bank of England should issue notes to the value of £14,000,000 against securities which were to be held by the Issue Department, and that any issue of notes beyond £14,000,000 was to be secured by gold and bullion. The same restrictions do not apply, of course, to the issue of Treasury notes, but it is generally admitted that a paper currency without some corresponding good security will tend to be depreciated. This depreciation is provided against in this country by two things:—

(1) The withdrawal of the gold coinage from circulation, and

(2) The effect of making Treasury notes legal tender; legal tender being that particular form of money which must be received if offered in payment of a debt.

It will be seen, however, that in foreign countries the protection of legal tender cannot apply. Theoretically a debt owing to another country is payable in the coinage of the country. This question of maintaining an adequate reserve of gold against the paper currency has a direct influence upon foreign exchanges.

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The subject of foreign exchanges treats of :—

- (1) The international value of money.
- (2) The value in one country of a debt payable in another.
- (3) The means of transmitting settlement of such debts.

The rate of exchange between two countries is affected by the cost of transmission of gold, and the equation between the two systems of coinage used in two countries, called the Mint Par of Exchange. International debts are settled by the medium of bills and cheques. The balance of indebtedness may be settled by the import or export of gold. In commerce England pays its debts by accepting bills drawn upon London, and other countries pay England by buying bills drawn upon London and remitting them by post.

One of the greatest influences brought to bear upon the rates of exchange is the adverse balance of indebtedness, i.e. where the imports of the country are largely in excess of the exports. It would follow, for instance, that if we imported twice as much goods from America as we exported to them, there is a balance which must be paid in cash. It, therefore, becomes necessary at times to export gold in settlement of the difference, if that were the cheapest way. It must be borne in mind, however, that our trade is not merely with America but international, and the true balance of indebtedness is as against the whole world.

Assuming, therefore, that it is advisable to attract gold to this country, the Bank of England may put up the Bank Rate in order to do so. The result of this will be that other bankers will raise the rate which they allow on deposits. This will induce them to raise the rate which they charge bill-brokers on money lent on call and short notice. The bill-brokers, having to pay more for their borrowed capital, will be forced to raise the discount rate which they charge to the public. Consequently a rise in the Bank Rate results in a rise in the market rate of discount.

It is not usual for the market to borrow from the Bank of England if it can get the money elsewhere, because the terms are less favourable than those of other banks. But where the amount of money which the banks are able to lend is insufficient, the bill-brokers have no option but to borrow from the Bank of England, which, from the position it occupies, can make its own rate, the market in such a case being driven to the Bank. A high Bank Rate has the tendency of attracting money from other countries, the flow of which would in time bring down the Bank Rate in order to keep it in touch with the market rate.

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We can see, therefore, that the bank, in its endeavour to maintain the gold reserve, and, further, to steady the foreign exchanges, actually puts limitations upon the money market which may be detrimental to the interests of industrial borrowers. This position of affairs has resulted in general criticism of the Government, which by its methods of finance is assumed to have created a dear market. It is very difficult to follow the criticisms owing to the fact that the abnormal condition of things obtaining at the present time seems to have reversed what was thought to be general rules in the market.

The Bank Rate is usually high at times of financial crisis, e.g.—

- (1) When there is increased demand for legal tender as a means of settling transactions.
- (2) When exports of gold are threatened by reason of the balance of indebtedness as regards other countries being against us; and
- (3) When there is a brisk demand for money owing to trade being good.

It will be seen that these three reasons are in themselves contradictory factors, so that it would be unsafe for an ordinary person to draw hasty conclusions from the fact of the Bank Rate being raised or lowered. As it is not the object of this article to attempt explanations or criticisms, nothing further need be said on that score.

We have seen why it is the Government wish to control the market, and how it is that the Bank of England exercises the control. We will, in our next article, discuss the various operations upon the market which are immediately affected by the prevailing rates of interest.

The Fundamentals of Accountancy—IV.

By Lawrence R. Dicksee, M.Com., F.C.A.

(Sir Ernest Cassel Professor of Accountancy and Business Methods in the University of London.)

The various methods of recording transactions, the "First-Entry Records," upon which the Ledger Record is based, are fully described in Professor Dicksee's article this month.

XII.—First-Entry Records.

Hitherto, no attempt has been made to describe the means by which the Accountant arrives at the information that enables him to determine what transactions it is necessary for him to record in his accounts. Naturally, this information must reach him through recognised channels, or there will be serious risks of inaccuracy and omission. The formal accounting records, which have so far been considered, constitute the "Ledger" of the business. According to the size of the undertaking these accounts may be comprised in a single volume or they may be split out over a number of separate volumes for convenience of reference, and also for the purpose of enabling a large staff to be at work simultaneously upon the records. The written information upon which the Ledger record is built up varies considerably in its nature according to circumstances. Taken collectively, it may conveniently be spoken of under the heading of "first-entry records." The articled clerk of even a few weeks' experience has doubtless already made some acquaintance with first-entry records, but that his knowledge may become systematic it is convenient to deal with the various methods that have been in use from time to time since the institution of double-entry bookkeeping, as none of these methods are entirely obsolete and the most modern of them are but natural developments of the earlier.

XIII.—The Waste Book.

Originally, the practice was to provide a "Waste Book" at a convenient central point on the business premises, to which all had access. This was, as its name implies, a book consisting of blank or empty pages. It was the duty of every person concerned in a transaction to record in this book without delay such particulars as would enable the Accountant afterwards to deal with the matter in a proper form. No special knowledge of accounting was expected, or desired, upon the part of those whose duty it was to make entries in the Waste Book. These entries accordingly appeared in ordinary narrative or diary form, and in the nature of things would appear in chronological order. The responsibility was thrown on those concerned with the transactions of recording them, and recording them accurately.

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XIV.—The Journal.

The Accountant, or chief bookkeeper, then took up the running. From day to day he would ascertain from the Waste Book what transactions had occurred, and would re-write these into a more formal book, styled the "Journal," translating them into the language of accounting in the process of doing so, and converting them into definite written instructions to his subordinates, showing (a) the account (or accounts) to be debited, (b) the account (or accounts) to be credited in respect of each transaction, and (c) the amount in money to be so debited and credited, adding (d) a short narrative of the transaction itself as a justification for the instructions he was thus giving to his subordinates. The form in which Journal entries are made has varied slightly from time to time in matters of detail, but in all essentials the purposes of the Journal as above described have remained unchanged. Indeed, the only substantial modification that time has wrought has been in the direction of keeping down the number of actual Journal entries for the day by combining into one Journal entry several transactions which, upon the one side or the other, affect a common account.

Originally, the Journal was the centre of the whole system of accounting. All transactions had to pass through this bottle neck before reaching their final destination in the Ledger, and in that way the Accountant was able to keep effective control, for no entry whatever could be made in any Ledger account for which he had not given written instructions in the form of Journal entries.

As businesses developed in size, however, this centralisation of control became more and more inconvenient, for in the nature of things there must always be a limit to the number of Journal entries that any one Accountant can possibly record in a day. Accordingly, with the growth of business houses, some abbreviated method of short-circuiting became essential. The abbreviations have in practice proceeded upon one or the other of the two following alternatives: (a) the sanctioning of direct Ledger entries, (b) the multiplication of Journals to enable more than one Accountant, or bookkeeper, to be at work at the same time.

XV.—Direct Entry in Ledger Accounts.

In almost every business it will be found that a very substantial proportion of the total number of transactions—anything from (say) 40 to 80 per cent.—are transactions involving the receipt or payment of money, i.e. transactions affecting the Ledger account of one who is in fact, if not in name, acting as Cashier to the business. Obviously, it is of the greatest importance that such Ledger accounts should be kept closely up to date, so that at any time the available monetary resources of the undertaking may be ascertained. If the records were even a day behindhand there would be considerable inconvenience in many instances. If no entries can appear upon a Cash Account until they have been entered, or "posted," there from Journal entries, it is probable that the Cash Account would always be 48 hours behind time. The class of person who is suitable to have the responsibility

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of handling money is *prima facie* quite capable of being taught how to keep a simple record of his own receipts and payments. An important short cut may thus be introduced by providing the Cashier with a Waste Book of his own, in which he records his transactions at the time in debit and credit form, i.e. in the form that it is desired they should subsequently assume. If this can be arranged, the time of the Cashier can be saved, in that he has not frequently to leave his station in order to make entries in a common Waste Book, the time occupied by the Accountant in journalising such transactions is cut out entirely, the time occupied by Ledger clerks in posting up Journal entries to a Cash Account in the Ledger is also eliminated, and at the same time provision has been made for the Cash Account invariably to be up to date in all respects.

The Cash Book, as it is then commonly called, thus takes the place of the three-fold record which originally appeared first in the Waste Book, second in the Journal, and lastly in the Cash Account in the Ledger itself, and so long as the record is properly kept this Cash Book may take rank as one of the Ledger accounts, which as a matter of convenience is now bound up separately from the rest. In order to complete the record of transactions involving the receipt or payment of money, it is only necessary for the Ledger clerk from time to time to secure the loan of the Cash Book, and to post therefrom to the Ledger accounts of the other parties concerned in the various transactions there recorded. To complete the double-entry, every transaction entered upon the debit side of the Cash Book as having been received by the Cashier has to be posted to the credit of the account representing the party entitled to receive credit in respect of the transaction, and conversely every item entered upon the credit side of the Cash Book as a payment by the Cashier must be posted to the debit of the account of the party to whom that payment has to be charged.

When there are several Cashiers a separate Cash Book may be provided for each Cashier, or if it be found more convenient the transactions of two (or even more) Cashiers might be recorded in one Cash Book, so long as it is provided with a sufficient number of money columns upon both debit and credit sides to enable separate money columns to be allocated to each separate Cashier's account. In practice, this idea is not usually carried further than to combine in one Cash Book the account of the Cashier in respect of office cash, and the account of the Bankers of the business in respect of their receipts and payments on behalf of the business, all the entries in the Cash Book being then conveniently made by the office Cashier.

XVI.—Specialised Journals.

The elimination of transactions involving the receipt or payment of actual money from the Waste Book and Journal will often so far relieve congestion that there is no difficulty whatever about recording all other transactions upon the lines indicated upon paragraphs XIII and XIV. In a larger concern, however, the decentralisation of the work must be carried further, and the natural course to be pursued

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will be to multiply Waste Books, and to place each in a convenient place so that there may be no unnecessary loss of the time of those whose duty it is to record transactions as they take place, or in subsequently dealing with them. Directly we start multiplying Waste Books in this way we shall find that, to some extent at least, almost inevitably the result is that certain kinds of transactions tend to be recorded exclusively in certain volumes of our Journal, and that by the exercise of a little extra ingenuity it is easy to arrange the work so that this shall be so. If all the transactions in a particular volume belong to the same class (i.e. are all sales of goods, or all purchases of goods) it is but a simple matter so to drill those whose duty it is to make the entries in these specialised Waste Books as to make it quite unnecessary to rewrite the entries into Journal form in order that they may constitute definite instructions in writing to the Ledger clerks as to what entries they are to make. The specialised Waste Books thus tend to become *de facto* also specialised Journals, from which the Ledger clerks can post to the various accounts concerned.

The practical effect of this specialisation, however, carries with it a further important saving of time. If all the entries in a particular book relate exclusively to the same class of transaction, it follows that in one or the other of their aspects they must all affect the same Ledger account. Accordingly, it is no longer necessary that each transaction should be posted separately to each Ledger account; the complete record upon a double-entry basis may be secured equally well by posting daily, weekly, or monthly totals. Thus much detailed work which serves no useful purpose is saved, while the introduction of the periodical totals enables the broad tendency of different classes of transactions to be followed to an extent that would otherwise be quite impossible. This particular form of short-cut method permits of the transactions being handled by a staff of any desired size, cuts out the work of journalising bodily, and for all practical purposes halves the work of the Ledger clerks.

Under modern conditions it is very usual to find that Discounts are allowed for the prompt payment of business accounts, and that as a result a very large proportion of the actual transactions involving the receipt or payment of money also involve the allowance of a discount in respect thereof. In these circumstances a further short cut becomes practicable, which presents important advantages over what might seem to be the natural method of employing a specialised Waste Book, or Journal, for the record of Discount allowances. If such a book were kept, each separate allowance of discount would involve an entry, under the correct date, of the name of the party concerned, as well as the amount of discount allowed, and each entry would of course have to be subsequently posted to the appropriate Ledger accounts. By providing an additional money column for discounts upon each side of the Cash Book, it becomes possible to use these two columns as specialised Waste Books for Discounts, without having to write the date or the name of the party a second time, while of course Ledger clerks can post both Cash and Discount items more rapidly to the Ledger accounts concerned if both are posted from one source, than

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would be practicable if they had to be posted separately from different books. Periodical totals of the Discount columns in the Cash Book have, however, of course to be posted to the appropriate Discount Account in the Ledger in order to complete the double-entry.

XVII.—Modern First-Entry Records.

Within the last twenty years there has been a growing tendency to make first-entry records no longer in bound books, but rather upon loose sheets, or slips—i.e. the record in respect of each transaction upon a separate sheet. The advantages are (*a*) the entries can now be conveniently typewritten instead of being written by hand, and by means of carbon sheets any desired number of accurate copies can be prepared at the same operation, (*b*) a very large staff of clerks may be employed, under such conditions that each is supplied at once with the material with which he has to work without the slightest risk of having to wait until some other clerk has finished with the book he requires. Under this system, of course, suitable safeguards must be provided to insure that the slips do not go astray, and it becomes practically essential to employ some kind of Adding Machine, in order to arrive at the total of a series of transactions each of which is recorded upon a separate sheet. The system has many advantages, but their full consideration would be outside the scope of a work only intended to deal with the elements of accounting.

Audit Programmes and Procedure—IV.

By Andrew Binnie, F.C.A., C.A.

Mr. Binnie deals this month with the Duty of the Auditor as regards Stocks and Shares, Work in Progress, Leases, Sales' Accounts, Wages, &c.

Stocks and Shares.

As to the stocks and shares comprised in the Ledger balances, a schedule should be submitted to or raised by the auditor setting out their precise designation, the number of shares or amount of stock held, the rate of dividend (if there be a fixed dividend), the gross amount of same, the tax deducted and net amount, the date due, the cost price or market value where ascertainable, in whose name held if there be a nominee, with spare columns in which to enter particulars as to documents produced at the verification of the existence of the investments. If the stocks or shares are charged as security, further columns should be provided in which to enter particulars showing to whom charged, the amount of the charge, the interest payable, when payable, and who holds the securities. Where the stocks are officially quoted a broker's certificate may be procured if deemed necessary as to the values; where not quoted, the value is a question of circumstances, involving careful inquiries and a considered judgment based on such evidence as is available in the shape of accounts, reports, or expert opinion as to the values. The auditor should see that the dividends have all been received and accounted for, and, by reference to the counterfoils of the Dividend Warrants, whether they have been received gross, or less, tax, or free of tax. To this extent he will at the same time be able to vouch part of the cash received. Where stocks and shares have been bought and sold see that the numbers of shares or the nominal amounts of stocks bought and sold (and not simply the money received or paid) are entered in the Ledger in respect of each transaction and agree the number or amount of stocks and shares on hand with the difference between the purchases and sales. Stocks and shares (especially investments of a permanent nature) are sometimes taken into the Balance Sheet at cost and sometimes at market value, if lower, but are not written up to market value if it be higher than cost. The method of valuation should be stated on the face of the Balance Sheet. In the case of financial companies dealing in stocks

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the value in the accounts should be cost price or market value, whichever is lower, as in the case of trading stocks. Reserves may also be considered necessary to meet anticipated losses. In principle, profits or losses in respect of the sale of stocks or shares may be either a gain or a loss of Capital or Income according as the stocks or shares represent investments of capital or of accumulated profits, or are the result of a stock-jobbing business, as in the case of some financial companies. Except in the case of Trust Estates, and subject in partnership matters to the conditions of the articles of partnership, it is desirable as a matter of sound finance that all such losses be written off out of profits at once, or over a reasonable period of years, so as to get rid of "assets" of a nominal nature. The auditor should satisfy himself that the company has power to invest in the stocks and shares which it holds. Should the company hold partly paid shares the contingent liability in respect of uncalled capital should be disclosed on the face of the Balance Sheet. In the case of stocks and shares not producing income inquiries should be made, and reserves created, if necessary, to meet any anticipated loss. As Stock Exchange transactions are now all "for cash," the question of bringing shares open on contango into account does not arise at present. Stocks or shares held only as security do not appear as Ledger balances, and have been dealt with under a previous heading (Loans, Companies).

Work in Progress.

This item is usually the aggregate of a number of balances representing wages paid, material purchased and used, and a percentage of establishment charges in respect of unfinished contracts, also it may be of some allowance for profit considered to have been made on the completed part of the contracts and so credited to profits. The debits for Wages and Material are questions of fact which can be tested and verified by reference to the Invoices and Wages Summaries. As regards the Establishment Charges the percentage may be based either on the total productive wages paid or in relation to the total hours worked at the factory and charged accordingly to the Work in Progress either on wages paid or hours worked. The working out of the percentage should be carefully examined and the auditor should satisfy himself that it is correct in principle and inquire how far it is in accordance with the custom of the particular industry. A summary of wages paid or hours worked and a summary of establishment charges should be produced and tested by reference to the books. The amount of profit which may fairly be included is rather a difficult question, depending upon estimates as to the cost of completing the contracts,

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as to which the auditor must rely mainly on expert advice. He should inspect the figures upon which the estimates of profits are based and satisfy himself as far as possible that they are reasonable. An inspection of past estimates and the actual results will often help him to form an opinion as to the reliability of the figures placed before him. The sound policy is to make conservative calculations and even to limit the profit to interest on capital employed. Like that of stock-taking, the question is mainly one of expert knowledge. Certificates as to the value of the work in progress should therefore be obtained from the appropriate officials, such as the managing director, general manager, works manager, and chief costs clerk. These certificates should state that the value of the work in progress does not exceed the contract value. The auditor will find it useful to compile for his own private use a schedule of the percentage of establishment charges as computed in various undertakings and of the basis upon which the percentages are calculated.

Stock in process of manufacture (not under contract), and subject to being sold, should be included in stock at cost, or at selling price, if lower. Receipts on account of work in progress should be traced and deducted from the work in progress.

Bank and Cash Balances.—These balances should be checked by reference to the entries made in the auditor's Note Book when the bank balance has been agreed with the Bank Book and verified by the banker's certificate and the cash on hand agreed and counted. (See "Vouching and Verifying the Cash.")

Where the sums paid in but not credited by the bank at date of agreement are heavy, closely examine same, see whether subsequently credited within a reasonable time, and ascertain the cause of any delay. As regards cash and petty cash balances, hotel and club "floats," &c., see whether the amount on hand is increasing year by year, and, if so, obtain satisfactory explanations.

Leases.—The Ledger balances may represent the original cost of the leases or, as leases are wasting assets, may represent a written down figure. It is commonly considered that there is no legal obligation to write down leases, on the ground that the wastage is a loss of capital. As a matter of expert accounting, adequate provision ought to be made for depreciation, for a Balance Sheet which comprises nominal balances as a permanent feature is not a sound one financially even if technically correct. Provision may also be necessary for dilapidations on the termination of the lease and for loss of "landlord's fixtures." The original cost should be compared with the leases at the first audit.

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The subsequent writing down may be either of a rough and ready nature, the cost being divided by the number of years the lease has to run and written off by lump annual sums accordingly, or the cost may be written off in an expert manner in accordance with leasehold tables. The more exact method is preferable, and should be recommended, but is not always followed in commercial accounting. A schedule should be available or prepared setting out the original cost, the date and the duration of the lease, the date of expiration and the ground rent, also the names of the lessors and lessees. From the schedule the auditor will see at a glance whether any lease held as security has expired or not. For various reasons a lease may be worth much more than its cost or written down value, even though a substantial part of the term has run off. This appreciation, however, is as one may safely assume of a capital nature, and in principle should not affect the provision of depreciation out of revenue. Whether the appreciation, if realised, is a profit available for dividend is a question which in the case of a company depends on the articles of association and on a review of the value of the assets as a whole, for it does not seem to be legally permissible, and is not financially sound, to take into account a profit on an isolated capital item and to ignore losses in respect of other capital items. In the case of a partnership this question should be settled by reference to the articles of partnership, or, if they be obscure, by agreement among the partners. Usually, it is only of importance in the case of a dissolution of partnership. Exceptional depreciation of leases of a capital nature may also arise. If the depreciation be of a permanent character it is desirable in the case of companies to write the leases down either at once or gradually. In the case of a partnership it should be dealt with according to the articles of partnership or by agreement among the partners.

Illustration.

A lay arbitrator ruled that in the preparation of accounts for a dissolution of partnership, depreciation of the lease of the partnership premises must be provided for each year, and that although the lease had admittedly appreciated in value. The remaining partner, who as a consequence retained the lease at a low figure, subsequently sold it at a large profit. In justice to the retiring partner, the lease should have been valued and the appreciation added to the respective partners' capital in proportions depending on the articles of partnership, the depreciation being charged to profits and so borne by the partners in the proportion in which they shared profits. If profits of a capital

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nature were to be shared by the partners in the same ratio as trading profits the provision for depreciation would clearly be only of an academic nature.

Sales Account.—See that the sales are all Trading Sales and do not include sales of plant and machinery or other capital assets, also that due provision has been made for trade discount and brought down as a balance. If it appears that goods sold but not actually delivered are included amongst the sales, ascertain that the goods have not been included in stock, also that the purchase price or cost of manufacture has been duly charged up and that cost of delivery has been reserved, if sold at a “delivered price.” The auditor should be conversant with the system by which the records of sales and deliveries of goods reach the Sales Department for entry in the books, and may usefully vary the checking of details by comparing the sales with the copy invoices and copy advice notes outwards.

Purchases Account.—See that provision has been made for Trade Discount and brought down as a balance, and that all invoices dated forward are brought into account. Invoices filed subsequently to the date of the accounts may also be examined so as to see that they do not relate back to the previous period. It is absolutely essential to see that nothing has been allocated to Capital which ought to be charged to Revenue, thus swelling the apparent profits. If purchases of plant, machinery, and so forth are inadvertently charged to trading, the error is on the safe side and can be rectified, whereas profits distributed improperly cannot always be recovered from the recipient. The auditor should be conversant with the system by which the advice notes and invoices inwards are checked prior to entry in the Purchases Books, and may vary the checking of detail by comparing the purchases with the subsidiary records. (See also page 85.)

Wages.—See that the wages have been properly allocated as between Capital and Revenue, and if the Ledger shows that there is a floating balance in hand, see that the cash has been counted and agreed with the balance in the course of verifying the cash. If any part of the wages, for example wages spent on erection of fixed plant and machinery, or on buildings, &c., have been capitalised, procure a certificate that the addition to capital is justified.

Rents and Ground Rents.—See that the receipts or payments are in accordance with the leases as per schedule (see under Leases) or rental agreements, also that income-tax has been deducted, Schedule A tax

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as paid, but not exceeding tax on the actual rent, being deducted from the rent payable to the landlord and income-tax at the current rate from each payment of ground rent.

Note.

It has been held that the tax paid under Schedule A must be deducted from the next payment of rent, and cannot legally be deducted thereafter. *Hill and others v. Kirschenstein and others* (Court of Appeal, *Times*, 15th June 1920).

Rates and Taxes, Insurance, Freight, Carriage, and Trade Expenses.—Scrutinise these accounts generally and see that the payments are all properly chargeable as expenses. If any portion of these outlays has been transferred to a Capital Account see that the transfer is justified by the facts of the case. By reference to the demand notes or receipts see that due provision has been made for outstanding amounts and that all necessary apportionments have been made between one year and another. Sums insured in respect of the various assets may sometimes be compared to advantage with the corresponding Ledger balances. Incidentally the auditor may occasionally find that important risks have not been covered.

Note as to Apportionments.

For the purpose of checking and making apportionments with the minimum of time and trouble the auditor will find a copy of "Odd Time Tables," by Robertson & Fisher, of great assistance.

Income Tax Practice—IV.

The working of the income-tax forms such an important part of an accountant's duties that it is essential that students should be acquainted with the fundamental principles of the tax. It is intended in this series of articles, specially written by the Income-tax Expert of "The Accountant," to treat the subject in a manner intelligible to students, and later, to work up to the higher phases of the subject.

Succession.

Although income-tax assessments are based on past years, they are not retrospective charges but are only *based* on the preceding years. The assessment is for the year of assessment, and the law provides that the profit of that year shall not be the actual profit of that year but a fictitious or statutory profit arrived at on a prescribed basis. If, therefore, a person had a source of income in, say, 1919 but did not hold that source in 1920, he would not be liable in 1920 even though the law provides that the basis of assessment shall be the preceding year.

When, therefore, a trader disposes of his business in the year of assessment he is only liable on that portion of the assessment represented by the proportion of the year of assessment during which the trader carried on the business. Assume e.g. that a trader, A., made the following profits and sold his business to B. on 1st July 1920:—

Year to 31st December	1917	..	..	£	5,000
"	"	1918	..	..	7,000
"	"	1919	..	..	4,000
6 months to 30th June	1920	..	..		3,000

The 1920-21 assessment on A. would be:—

1917	..	..	..	£	5,000
1918	..	..	..		7,000
1919	..	..	..		4,000
					3)16,000
					<u>£5,333</u>

As the business was sold during the fiscal year 1920-21, i.e. the year to 5th April 1921, the assessment would be divided between A. and B. as follows:—

A—	1	of	£5,333	=	£	1,333
B—	4	of	"	=		4,000
						<u>£5,333</u>

Specific Cause.

In the above example B. would be assessable for subsequent years on the basis of the three years' average, even though those years'

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profits were those of A. *The Revenue has no power to vary this procedure, but B. may claim to have A.'s profits ignored if he can prove that his own profits have been reduced, as compared with the average, by reason of some specific cause. If, therefore, B.'s profits were :—*

6 months to 31st Dec. 1920	..	..	£	4,000
Year " " 1921	..	..	8	000
" " " 1922	..	..	10,000	

the assessment on the *average* would give a liability considerably less than the actual profits and B. is fully entitled to follow the average. Assume, however, that B.'s profits were as follows, the diminution as compared with A.'s profits being due, say, to the loss of A.'s personal influence :—

6 months to 31st Dec. 1920	..	..	..	..	£	1,000
year to " " 1921	..	..	..	..	2,000	
" " " 1922	..	..	..	..	1,500	
" " " 1923	..	..	..	..	1,800	

The assessments on B. would normally be :—

		£	
1920-21	(as above)		£4,000
1921-22	1918	7,000	
	1919	4,000	
	1920 (£4,000 + £1,000)	5,000	
		3)16,000	£5,333
1922-23	1919	4,000	
	1920	5,000	
	1921	2,000	
		3)11,000	£3,333
1923-24	1920	5,000	
	1921	2,000	
	1922	1,500	
		3)8,500	£2,833

By claiming a "specific cause" the following adjustments would be allowable :—

	Assessment.	Actual Profits.	Allowance.
	£	£	£
1920-21 ..	4,000	1,000	3,000
1921-22 ..	5,333	2,000	3,333
1922-23 ..	3,333	1,500	1,833
1923-24 ..	2,833	1,800	1,033
			<u>£9,199</u>

A prevalent "specific cause" arises on a conversion of a firm to a limited company. In the case of the former no allowance is made for partners' salaries, but directors' and managers' remuneration paid by a limited company is an allowable expense and is also chargeable on the recipient under Schedule E on the basis of the remuneration of the year of assessment. If the assessment on the company under Schedule D is made "on the three years' average, no allowance is made for the remuneration paid to the former proprietors, whereas that remuneration, in the shape of the directors' and managers' remuneration, is charged under Schedule E on the recipient. Assume that a firm, C., was formed on 1st October 1920 into a limited company,

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C. & Co., the shares being held by the former proprietors D. & E., and that the profits were as follows:—

Year to 30th September,	1917	£
"	"	"	1918	..	10,000
"	"	"	1919	..	12,000
"	"	"	1920	..	13,000
"	"	"	1921	..	14,000
"	"	"	1922	..	10,000
					8,000

The 1920-21 assessment would be:—

	1917	..	..	..	..	£
	1918	..	..	..	..	10,000
	1919	..	..	..	..	12,000
						13,000
						335,000
						£11,666

This would initially be divided as to:—

C.	..	..	..	..	$\frac{1}{2}$ of £11,666 = £5,833
C. & Co.	..	..	..	..	$\frac{1}{2}$ of £11,666 = £5,833

Now, the directors and managers of C. & Co., who were the partners of C., were paid £1,500 as remuneration for the six months to 31st March 1921, so that assessments would be made on these directors and managers in the sum of £1,500 for the year of assessment 1920-21. This gives what is in reality a double assessment, and the company, on claiming a specific cause of payment of directors' fees, would be entitled to assessment on the actual profits of the company.

Admission of Partner.

If a new partner is admitted to a partnership the assessment may still be made on the ordinary average, even though the profits are increased by the new partner's exertions. This point is particularly important when the new partner was an employee of the firm. Assume that a firm of F. & G. admitted, on 1st January 1921, an employee, H., as partner, that the remuneration of H. was £1,000 per annum, and that the firm's profits were:—

Year to 31st December				£
			1917	2,000
"	"	"	1918	2,500
"	"	"	1919	3,000
"	"	"	1920	4,000
"	"	"	1921	6,000

The 1920-21 assessment on H. would be:—

$$\frac{3}{4} \text{ of } £1,000 = £750.$$

and the assessment on the firm for 1920-21 would be:—

	1917	..	..	..	£
	1918	..	..	..	2,000
	1919	..	..	..	2,500
					3,000
					3) 7,500
					£2,500

This assessment would be based on the firm's profits, arrived at after charging £1,000 per annum for the remuneration of H., so that the Revenue loses tax, as the equitable method would be to add H.'s remuneration to the profits of each of the years brought into average and not charge H. on the £750.

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Division between Partners.

The division of an assessment between partners proceeds on the basis of distribution of profits pertaining to the year of assessment.

Assume that a partnership consisting of A., B., and C. shared profits, drew salaries, and received interest on capital as follows :—

			Salary	Interest	Share of
			£	£	Balance
1917	..	A	200	50	.. $\frac{1}{3}$
		B	nil	250	.. $\frac{1}{3}$ rd
		C	400	nil	.. $\frac{1}{3}$ th
1918	..	A	200	60	.. $\frac{1}{3}$
		B	nil	300	.. $\frac{1}{3}$ rd
		C	400	20	.. $\frac{1}{3}$ th
1919	..	A	300	100	.. $\frac{1}{3}$
		B	nil	300	.. $\frac{1}{3}$ rd
		C	800	50	.. $\frac{1}{3}$ th
1920	..	A	700	100	.. $\frac{1}{3}$
		B	nil	800	.. $\frac{1}{3}$ rd
		C	800	100	.. $\frac{1}{3}$ ths

The profits are assumed as follows :—

Year to 31st December	1917	..	..	£
	1918	..	..	8,000
"	"	"	1918	..
"	"	"	1919	..
				10,000
				12,000

The 1920-21 assessment would be :—

1917	..	..	..	£
				8,000
1918	..	..	..	10,000
1919	..	..	..	12,000
				<u>33,000</u>
				<u>£10,000</u>

Now, this assessment has to be divided between A., B., and C. as follows :—

Assessment	..	..	..	£	£
				..	10,000
Less Salaries in 1920..	..	..	..	1,500	
Interest in 1920..	..	..	..	1,000	
				<u>2,500</u>	
					<u>£7,500</u>
					<u>£</u>
A.=Salary	..	..	..	700	
Interest	..	..	..	100	
$\frac{1}{3}$ of £7,500..	..	..	..	1,875	
				<u>2,675</u>	
B.=Salary	..	..	..	nil	
Interest	..	..	..	800	
$\frac{1}{3}$ of £7,500..	..	..	..	2,500	
				<u>3,300</u>	
C.=Salary	..	..	..	800	
Interest	..	..	..	100	
$\frac{1}{3}$ of £7,500	..	..	..	3,125	
				<u>4,025</u>	
					<u>£10,000</u>

EDITORIAL.

The Valuation of Book Debts.

The case of *A. E. Green & Co. v. The Central Advance and Discount Corporation, Ltd.*, provides further food for the consideration of auditors as to their duties and liabilities, and the learned Judge—Shearman, J.—gave utterance to a number of remarks that are quite worthy of the attention of both students and qualified accountants.

Briefly, the case for the plaintiffs, Green & Co., was a claim for work performed, both as accountants and auditors, in respect of the preparation of Profit and Loss Accounts and Balance Sheets, and the audit of the company's books. The defendants, the Central Advance and Discount Corporation, Ltd., carrying on the business of moneylenders, made a counter-claim based on the plea of negligence on the part of the plaintiffs, inasmuch as they had allowed large sums of statute-barred debts to appear as Assets in the Balance Sheet, without drawing the attention of the shareholders to the fact in their Report. It appears that Mr. Green had from time to time drawn the attention of the Managing Director, Mr. Foot, to this large amount of debts, amounting in 1917 to some £19,000, in respect of which little, if any, reserve was made, and had relied upon the latter's statements as to their value as Assets. It appears also that the list of bad debts, although placed in the hands of the managing director, had not been passed on to the Board, and it was only upon the death of Mr. Foot that Mr. Green personally brought the matter to the notice of the directors, although he admitted that he had had it in his mind to do so for two years.

The following questions by Counsel, and the answers, should give students some useful hints on auditing :—

Q.—In 1913 were £12,000 of statute-barred book debts included as Assets subject to Reserve?

A.—In the case of a moneylender's business nobody but the person who lends can judge what the value of the debt is likely to be. I got the best information I could.

Q.—Did you ever make a report to the *shareholders*?

A.—No.

Q.—Suppose you found included the debt of a man who was bankrupt, how would you, as auditor, allow the company to deal with it?

A.—I could not interfere with Mr. Foot's valuation of it.

Judge.—Did you express any uneasiness to Mr. Foot?

A.—No, I accepted his statement in good faith. I called his attention to the fact that some of the debts were very old.

Q.—You did not tell them (the directors) that the debts were statute-barred?

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A.—I should have thought they would have known that themselves.

Q.—Nor did you tell the shareholders?

A.—No.

Q.—Why not?

A.—Because I had no uneasiness. There was nothing to warrant me telling them.

Q.—Did you ever tell the *shareholders* in these accounts that the Assets included an enormous amount of statute-barred debts?

A.—No. A special list of old debts to the extent of £11,000 to £12,000 was prepared in 1913 and given to Mr. Foot.

Q.—Notwithstanding this, did you allow Mr. Foot to put before the Board a list of bad debts amounting to only some *hundreds* of pounds?

A.—Mr. Foot never asked my consent.

Q.—You knew he had done it?

A.—Yes.

Q.—Why did you not report to the Board that Mr. Foot had this list?

A.—Because I had confidence in Mr. Foot being a straightforward man.

Q.—You knew in August 1914 he had not dealt with it?

A.—Yes.

Q.—And also in August 1915 and August 1916?

A.—Yes.

Q.—Then why did you not report it to the *shareholders*?

A.—Because I believed Mr. Foot capable of judging the value of the debts.

Q.—You agree with me that your duty is to the *shareholders*?

A.—Yes.

Q.—To protect the *shareholders*?

A.—Yes.

Q.—And without being a detective your duty is to protect the *shareholders* against the directors?

A.—If their interests are different.

The Judge.—Were you aware, in making out this schedule (of debtors), of those that were stagnant debts and those that were not?

A.—Yes.

Regarding the Examination of Securities.

There appears to have been an item in the Balance Sheet of "*Payments made on properties in hand*," and the Judge remarked that it appeared that the accountants looked at the books and saw

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that they were properties taken possession of, and put into the Balance Sheet the amount spent on them.

Q.—Was that the way accountants did their business, to put down just the total sums which property had cost?

A.—They were assured the properties were worth the amounts in question.

Q.—By whom?

A.—By Mr. Foot.

Q.—Do you consider it to be your duty when you are examining securities to do more than see they are in the safe?

A.—That was all we did it for.

Q.—Would you be content as an auditor if the outside of a document showed a lease, and inside it was the *Daily Mail*?

A.—No.

Q.—You really do not *inspect* the documents at all?

A.—I do not say that we open every single document.

Q.—Do you really say it is not your duty, in inspecting securities, to look to see if a lease has run out or not?

A.—We did not do it.

I know you did not, and that is what we complain of.

Q.—Do you not conceive it to be your duty as an auditor when you are inspecting securities to *see* if they really are what they represent themselves to be?

A.—Yes.

Counsel contended that the whole trouble had arisen because the auditors had failed to insist, as they should have done, on writing off a number of bad debts. They could not escape from their obligation to place before the *shareholders* the true position of the company. They had shut their eyes to what they had found out, and were responsible for failing to lay before the shareholders material information secured in course of their employment as auditors.

As to Bad Debts.

Q.—What is the practice of auditors with regard to including book debts as Assets.

A. (Mr. Fox, F.C.A.).—I think the auditor should satisfy himself as to their true value by going through the books and taking the balances, and if in his opinion they are not good, he should report the matter to the directors. Then, if he was not satisfied with the method in which the directors dealt with those book debts, he should report it to the shareholders.

The Judge.—I think that is *absolutely* right. It is laid down by cases. *As a last resource he should report to the shareholders.*

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Q.—With regard to debts which are of ancient date, in your opinion as an accountant, where would you draw the line at a bad debt?

A.—I think it would depend on the circumstances of the company. I should take into account the particular class of business. I think in a moneylender's business they are probably harder to recover than in an ordinary one, and therefore I should look at them with the greatest suspicion.

Q.—In what state did you find these debts?

A.—In a very bad condition, hopelessly bad.

Judge.—I am beginning to get somewhat alarmed, as I have acted as auditor myself for some voluntary bodies. I leave the Court every afternoon in fear and trembling. (Laughter.)

Q.—How far, if at all, does an auditor's duty extend to the valuation of Assets?

A. (Mr. A. G. Rayner, F.S.A.A.).—He relies upon the statement of the managing director of the company, or else of the manager or other director.

Q.—What about book debts?

A.—If there is any question of book debts he consults with the managing director as to the stability of the customer and the value of the book debt.

Judge.—If an auditor ought to see that the managing director is telling him nonsense, ought he not to report it to the shareholders?

A.—It may be a drastic course to say it to the shareholders. Personally, I should go to the directors. You might ruin a company by doing that.

Judge.—You agree the proper course is not to attack the directors before the shareholders, but to try and force your views upon the directors?

A.—Yes.

In the course of giving judgment, Mr. Justice Shearman said :—

It was clear to both contracting parties that one of the duties of the auditors was to extract a Schedule of Debtors in order that the present value of the outstanding debts for the purpose of getting out the Balance Sheet might be ascertained.

The directors of the company were business men, and regularly attended meetings of the Board. He found that what they did was to examine the position of the borrowers, but none of the directors made himself acquainted with, or looked into the question of there being a large amount of old debts, to find out *how* old or *how* unproductive.

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At the same time, the auditors were perfectly well aware that the directors were meeting, and he thought were entitled to assume that the directors were attending to what was obviously a part of their business. . . .

The form of certificate throughout was practically the same, and as outlined in the Companies Consolidation Act.

It was the statutory duty of the auditors to make a report, and to state whether in their opinion the Balance Sheet was properly drawn up so as to afford a true account or statement of the company's affairs.

The Judge said further that auditors were bound to exercise a certain amount of professional skill. They were not bound to exercise an *extraordinary* skill, but there was a standard, and if they did not come up to that standard that was for the Judge or Jury to say.

He, the Judge, had to look into the whole circumstances of the case in order to decide whether the auditors had been guilty of a breach of duty in certifying what they had certified to be a true state of the company's affairs, which he (the Judge) was satisfied it was not. He did not want to go into all the details, but the conclusion he had come to was that the plaintiffs were guilty of a breach of duty in the last two years complained of. Mr. Green had handed a long list of thousands of pounds of unproductive debts to Mr. Foot, showing he was uneasy about it. Mr. Foot took the list home to his private house, and the directors never saw it. Apparently, Mr. Foot was too busy to attend to the matter, and the result was that after having no information afforded them as to what were unproductive debts, the auditors continued issuing a Balance Sheet which did not even show the shareholders the amount set aside as reserve. Everything appearing in the books was put down as an Asset, including charges and County Court costs, many of the charges being in respect of debts which had failed to produce anything, but were still capitalised. The Judge, therefore, came to the conclusion that having made inquiries the auditors did *not* get any satisfactory explanation, and that the counter-claim of the company must succeed.

Messrs. Green were awarded £157 10s. on their claim for professional services, and the company £613 14s. 11d. on their counter-claim for negligence.

We have dealt with this case somewhat fully, as we believe that it may serve as a definite standard as to an auditor's duty regarding the certification of debtors, comparable with that set by the Kingston Cotton Mills' case in relation to the valuation of stock.

There are numerous cases on record dealing with the valuation of other classes of Assets, but we believe that this case is the first to indicate the duties of auditors with regard to their method of dealing with book debts, the necessary inquiries that they should make in respect of the same, and their special obligation towards the shareholders.

Notes.

The Society's Final Examination.

Senior Accountants' clerks who desire to sit for the Final Examination of the Society of Incorporated Accountants and Auditors, under the 10 years' service clause (without articles) have no time to lose, as we understand that no further applications upon this footing will be entertained after 31st December next.

Student Society Debates.

We notice that a number of joint debates between members of the Chartered Accountant and Incorporated Students Societies were successfully organised in the provinces last session, and it appears to us that such a good example might profitably be imitated by the parent Societies in London, to their mutual advantage. The war has done much to fraternise members of these two bodies, and we think that if similar arrangements were made in London for the forthcoming session, it would tend to further foster the spirit of camaraderie that is obviously so desirable between future members of the Institute and Society.

Prize Competition.

We remind our readers of the Competition announced in our last issue, and for the benefit of those who omitted to note the conditions, we reprint the rules on p. vi.

The subjects for No. 2 Competition for September are :—

(a) *Final*.—The best answer to the following question :—

A. died on 1st January 1920, possessing the following estate :—

- (a) Freehold house, valued at £1,500, let at a rental of £120 per annum, on which there was a mortgage of £800 at 6 per cent. interest, payable 1st November, 1st May.
- (b) A leasehold house which he occupied, valued at £900. Ground rent of £10 per annum, payable 24th June, 25th December.
- (c) £5,000 5 per cent. War Loan, quoted at 85-85½.
- (d) £2,000 6 per cent. Railway Debentures at 94, 94¼, dividends April and October.
- (e) £1,000 Consols at 47-47½.
- (f) £125 per annum East India Railway Annuity at 29, payable February and August.
- (g) Furniture valued at £750.
- (h) One-third share in partnership business, worth £3,000, the profits of which were ascertained on 1st March 1920 and amounted to £1,500.
- (i) A. was a member of a syndicate running a single ship. A voyage was completed on 1st February, A.'s share of profit being £250.
- (j) Sundry debts owing to A., £600.
- (k) A. had advanced on Mortgage the sum of £2,000 at 7½ per cent. interest, which was payable on 1st March, 1st September.

Notes.

The whole of the estate was realised on 1st August 1920, as follows :—

- (a) Freehold house was sold for £2,000, and the mortgage repaid.
- (b) Leasehold house sold for £850.
- (c) War Loan was sold at 84.
- (d) Railway Debentures at 96.
- (e) Consols at $46\frac{3}{4}$.
- (f) Annuity at $27\frac{3}{4}$.
- (g) Furniture realised £800.
- (h) Partnership business £2,750.
- (j) £100 debt proved irrecoverable.
- (k) Mortgage was repaid on 1st August.

On sale of securities brokerage at one-eighth per cent. must be taken into consideration.

The funeral expenses were £85.

Testamentary expenses, £150.

His debts to tradesmen were £75.

He left his estate to be divided as follows :—

One-half to widow, one-quarter to son B., one-quarter to son C.

B. had received advancement of £1,000.

C. had received advancement of £750.

and it was found that a gift of £1,000 had been made to X. on 1st June 1919.

You are required to give—

- (a) Estate and Residuary Account.
- (b) Cash Book.
- (c) Final Balance Sheet of the Estate.

(b) *Intermediate*.—Write a short essay, not exceeding six pages of foolscap, on what you consider the relative advantages or disadvantages of—

- (a) A Private Company ;
- (b) A Limited Partnership ;

or

An imaginary report upon a large business whose accounts you are asked to investigate with a view to turning it into a Limited Company.

Rent Restrictions Act.

The legislation of the House of Commons to protect tenants of business premises will probably be welcome news to many of our professional brethren.

The profiteering by landlords of office property—who, as far as we can gather, have been even more avaricious than the owners of house property—has received a very effective check for the time being, as the protection to tenants is effective until June 24th 1921.

In London protection is afforded against ejectment in the case of rentals up to £105, but immediate increases of 40% over pre-war rental standards are permissible between the limits of £70 and £105 in London, between £60 and £90 in Scotland, and between £52 and £78 elsewhere.

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Where there are agreements still uncompleted no addition may be made in the rent until the expiration of the term.

In view of the high rate of interest now obtainable upon the best class of Stock Exchange investments, it is only reasonable that mortgagees of property protected by this Act should be empowered to raise their rates of interest; this they may now do, to the extent of 1%, i.e. $\frac{1}{2}\%$ during the 1st twelve months and a further $\frac{1}{2}\%$ afterwards, with a maximum of $6\frac{1}{2}\%$.

Degrees of Commerce.

The decision of the London University to institute new degrees of Bachelors and Masters of Commerce should be of great interest to our readers, for there is very little doubt that in the near future our captains of industry will be recruited from the ranks of the students securing the same. The degree is open to all persons, either male or female, and without any age limit above 16, who have matriculated whether they study at a college of the University or not. A very important factor is the condition that no one is able to obtain the Master's degree unless able to show he has had two years' practical experience in commerce.

The syllabus is very comprehensive and is briefly as follows:—

Intermediate Examination.

Compulsory Subjects—Economics, Banking and Currency, Geography, Accounting, and an approved Modern Language; and one

Optional Subject—Another Modern Language, Chemistry, Physics, Geology, Botany, Pure Mathematics, Applied Mathematics, History, English or Commercial Art, as applied to an approved manufacture.

Final Examination.

Compulsory Subjects—

- (1) Organisation of Industry, Banking, Trade, and Transport.
- (2) Modern Economic development of the Empire and more important Foreign Countries.
- (3) Commercial Law.
- (4) Statistical Methods, and one group of subjects selected from the following:—

(a) *Banking and Finance*, comprising—

- (1) An Approved Modern Foreign Language.
- (2) Banking, including Foreign Exchanges and Stock Exchange Practice.
- (3) Accounting and Business Organisations.

(b) *Trade A Group* (for candidates for Colonial and General Trade)—

- (1) The Trade of certain great divisions of the World, including Conditions of Production, Marketing, Transport, Statistics, &c., of the same.
- (2) Economics of Transport by Sea, Land, or Waterway, and Insurances.
- (3) Accounting in relation to Foreign Branches.

Notes.

(c) *Trade B Group* (for those engaged in trade in India, China, or Brazil, &c.)—

- (1) The Chief Commercial Language of selected area.
- (2) Accounting in relation to selected area.
- (3) Commercial and Physical Geography, Conditions of Production, Local Tariffs and Transport, Statistics and Commercial Law of selected area.

There are also groups dealing similarly with (a) Industries, (b) General Transport, (c) Shipping, (d) Railways, (e) Public Utilities, e.g. Gas, Water, and Electricity, (f) Commercial Art, embracing colour designing, advertising, printing and illustration.

A Bank Experiment.

The Anglo-South American Bank is experimenting with a scheme of working double shifts of the staff in order to obviate the shortage of accommodation and to cope with the increasing volume of work. Two schemes are being tried. The first provides for two definite shifts, one working from 8 a.m. till 3 p.m., and the second from 3 p.m. to 10 p.m., the usual interval being allowed in each case for lunch or dinner. It is hoped in time to reduce the working hours of the afternoon shift to 5, as compared with 6 in the earlier one, 10 o'clock being rather a late hour for ceasing work. The second scheme is more complicated.

For the purposes of this scheme the staff of the department concerned would be considered to be divided into groups of three or four. In the case of a group of the former number, the arrangement of working hours under this scheme for the individual members of the group would be as follows :—

GROUP 1 :—1st week, 8.0 a.m. to 3.0 p.m. 2nd week, 9.30 a.m. to 5.0 p.m. 3rd week, 3.0 p.m. to 10.0 p.m.

GROUP 2 :—1st week, 9.30 a.m. to 5.0 p.m. 2nd week, 3.0 p.m. to 10.0 p.m. 3rd week, 8.0 a.m. to 3.0 p.m.

GROUP 3 :—1st week, 3.0 p.m. to 10.0 p.m. 2nd week, 8.0 a.m. to 3.0 p.m. 3rd week, 9.30 a.m. to 5.0 p.m.

Where a group of four is concerned, one would continue to observe the present hours, while the remaining three would vary their time as in the table given above. As a result of these schemes it is hoped to secure certain changes in the routine of the bank which should be distinctly advantageous. In the first place it would be possible, if necessary, to operate staffs of double the present number, and thus, in theory at any rate, to double the output. Secondly, the double shift should certainly put an end to the necessity for overtime, though one of the schemes put forward specifically provides that in the case of those members of the staff working from 9.30 a.m. to 5.0 p.m. extra time is to be worked if circumstances require it.

Income Tax Notes and Comments.

Arrangements have been made to reply to Income Tax and Excess Profits Duty Queries by post, but only to actual subscribers. The replies will be published in the "Journal" under noms de plume. A stamped addressed envelope should be enclosed.

Interest.

The question of interest is of considerable importance, and the following points should be noted:—

The general basis of assessment of interest is by the process of deduction at the source, i.e. the payer is taxed and recovers the tax when paying the interest. This does not apply to interest that is not *annual*, nor to bank deposit interest, and certain war loan interests that are paid in full. These are assessed direct on the recipient under Case 3 of Schedule D, which prescribes a basis of the preceding year.

When interest is paid by a trader on e.g. loans or by a company on debentures, the debits for these items are added back. If the average, after adding back these items, gives a figure less than the interest payable *in the year of assessment*, the assessment is made on the amount of such interest. Assume that a company with a trading year ending at 31st March paid the following debenture and loan interests:—

Year to 31st March, 1918	£	1,500
" " " 1919	1,800	
" " " 1920	1,800	
" " " 1921	2,400	

and that the profits, *after* charging this interest, were as follows:—

Year to 31st March, 1918	£	8,000
" " " 1919	loss	10,000
" " " 1920	1,000	

The 1920-21 assessment would be:—

1918	£8,000	+	£1,500	=	£9,500
1919	loss £10,000	-	£1,800	=	loss 8,200
1920	£1,000	+	£1,800	=	2,800
					<hr/>
					12,300
					8,200
					<hr/>
					34,100
					<hr/>
					£1,366
					<hr/>

As, however, the interest payable for 1920-21 is £2,400, the assessment will be on £2,400 instead of £1,366.

Deficiencies.

A correspondent, "Bolos," refers to a press statement regarding Section 38 (3) of the 1915 Act, which provides as follows:—

"Where a person proves that in an accounting period which ended after 4th August 1914 his profits have not reached the point which involves liability to Excess Profits Duty, or that he has sus-

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"tained a loss in his trade or business, he shall be entitled to repayment of such amount paid by him" as Excess Profits Duty in respect of any previous accounting period as will make the Excess Profits Duty paid for the total period during which the duty exists accord with the total profits of such total period. The correspondent gathers that the Treasury is responsible for the maintenance of the profits up to the amount paid in Excess Profits Duty since August 1914.

The latter assumption is not quite correct. If the profits of an accounting period are less than the pre-war standard plus £200, the deficiency is allowable, but only by setting off the rate of duty in that period on the amount of the excess against Excess Profits Duty previously paid. Assume that the pre-war standard of a business was £3,000, and that the following profits were made:—

Year to 31st December, 1914	..	..	£ 5,000
" " " 1915	..	..	6,000
" " " 1916	..	..	2,000
" " " 1917	..	..	4,000
" " " 1918	..	..	loss 2,000
" " " 1919	..	..	5,000

The assessments would be:—

1914			£ 5,000	£
	Less P. W. S. £3,000 + £200		3,200	
			<u>50%) 1,800</u>	900
1915			6,000	
	Less P. W. S.		3,200	
			<u>60%) 2,800</u>	1,680
1916			2,000	
	Less P. W. S.		3,200	
			<u>60%) - 1,200</u>	
			Deficiency 720	

A repayment of £720 would then be made against the Excess Profits Duty paid for 1914.

1917			£ 4,000	£
	Less P. W. S.		3,200	
			<u>80%) 800</u>	640
1918			loss 2,000	
	Add P. W. S.		3,200	
			<u>80%) - 5,200</u>	
			Deficiency 4,160	

A repayment would then be made of

1914	£ 180
1915	1,680
1917	640
						<u>£2,500</u>

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This leaves a balance of deficiency of £4,160 - £2,500 = £1,660 to be carried forward against subsequent liabilities.

1919	£
Less Pre-war Standard	5,000
	3,200
	40%) 1,800
	£720

This £720 would be discharged by allowance of part of the £1,660 deficiency, thus leaving £940 still to be carried forward.

Repayment Claims.

On 31st July A. sells house property and receives rent, less tax, up to that date. The proceeds remain in the bank until 30th September and bank interest is credited without deduction of tax. On 30th September Industrial 6½ per cent. preference shares are purchased cum div., and the dividend is paid less tax on 31st December for the half-year to that date. It is asked by "Pierre" if, in making the 1919-20 repayment claim, it is correct to show as income the Schedule A assessment apportioned to 31st July, bank interest, and that proportion of the dividend earned between 30th September and 31st December.

For the purpose of the repayment claim, the full half-year's dividend on the industrial shares should be shown and relief would be allowed thereon. The proportion of the Schedule A assessment to 31st July should be included but not the bank interest, as that is only assessable on the basis of the preceding year.

Colonial Residents.

A resident in India possessed shares in English companies since 1917 and the dividends have been received less tax at 6s. The total income in India was below £1,000, and it is asked by "Lucknow" if any relief can be claimed.

A claim may be made for repayment of part of the 6s. tax. The total income from all sources (whether chargeable in England or not) must be shown on the claim for the purpose of determining the applicable rate in the £. This will apply for 1917, 1918, 1919, and 1920.

Depreciation of Lease.†

A limited company purchased for £4,000 an assignment of a lease of offices. It is asked by "Woodstock" if any charge can be made for depreciation.

No allowance whatever is made for the depreciation of the lease. It has been held in the Courts that this is a loss of capital prohibited by the Acts as a deduction.

Bills of Sale.*

By Dr. Tinsley Lindley, Barrister-at-Law.

It is very necessary that all who are interested in business and commercial transactions should be well acquainted with the various kinds of Bills of Sale and the legislation affecting them. The subject is clearly and fully treated in Dr. Lindley's article.

Bills of Sale legislation was first introduced by the Act of 1854, and further regulated by the Act of 1866. These Acts were repealed and the present statutes are the one of 1878 (known as the principal Act), the other of 1882 (the amending Act) cited together as the Bills of Sale Acts, 1878 and 1882, and the Acts of 1890 and 1891, which provide that certain instruments hypothecating imported goods are not to be deemed bills of sale.

The object of the principal Act was to prevent false credit being given to persons who retained possession of goods, but had not the ownership thereof, and the object of the amending Act was to protect needy persons against themselves from being persuaded into signing agreements which might be said to contain harsh and unreasonable provisions hidden to some extent by complicated phraseology.

The result is that two distinct classes of bills of sale have been created—(1) an absolute bill of sale, which, in effect, is an out and out sale to which the principal Act applies, and (2) bill of sale given to secure payment of money, otherwise a mortgage of personal chattels, as to which both Acts have to be construed together.

A bill of sale is an instrument in writing whereby property in goods and chattels is transferred from one person to another (*Allsopp v. Day*, 7 H.N. 457), or, to put it in another way, as a document given in respect of the transfer of chattels used in cases where possession is not intended to be given.

The expression "bill of sale" includes bills of sale, assignments, transfers, declarations of trust without transfer, inventories of goods with receipt thereto attached, or receipts for purchase moneys of goods and other assurances of personal chattels, and also powers of attorney, authorities, or licences to take possession of personal chattels as security for any debt, and also any agreement, intended or not to be followed by the execution of any other instrument by which a right in equity to any personal chattels or to any charge or security thereon shall be conferred. Section 4, Act 1878.

Seeing that the Acts only apply to bills of sale given by the owner of chattels, it does not follow that every document drawn up at the

* A lecture delivered before the Nottingham Chartered Accountants Students' Society on Friday, 26th March, Mr. Robert Rhodes, F.C.A., in the chair.

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time when a transaction is carried out for the purpose of transferring goods from one to another is a bill of sale, but only in those cases where it is necessary to rely upon the document to prove title, because the Acts deal with documents and not with transactions, and, therefore, if a transferee can make out a good title to goods without reference to any document concerning them the Acts have nothing to do with the matter, so that where the subject and effect of the transaction is the immediate delivery of chattels to the grantee, even though accompanied by a document within the definition of a bill of sale, is not within the Acts.

For example, receipt, pledge, constructive possession. It may make the law more explicit by commenting upon some of the instruments referred to in the definition.

Declarations of trust without transfer were formerly resorted to as security for advances, e.g. a hypothecation note given on obtaining an advance from bankers, whereby the grantor undertook to hold goods in trust for his bankers and to hand over the proceeds, when received, to the amount of the advance. *R. v. Townshend* (15 Cox C.C. 466).

But an instrument charging or creating any security on or declaring trusts of *imported goods* given or executed at any time prior to their deposit in a warehouse, factory, or store, or to their being shipped for export or delivered to a purchaser not being the person giving or executing such instrument is not to be deemed a bill of sale. 1891 Act.

Inventories of goods, receipts, and other assurances of personal chattels. Here the controlling words are "other assurances of personal chattels," so that inventories and receipts do not come within the Act unless they are assurances upon which title depends—thus an express lien given by an agreement in writing for unpaid purchase money over goods sold and delivered. *Coburn v. Collins* (35 Ch.D. 373).

Powers of attorney, authorities, and licences to seize as security for any debt. These are within the principal Act, but as bills of sale by way of security for payment of money are now required to be in accordance with a scheduled form, the instruments referred to will not be valid securities.

Only such licences or authorities to take possession are bills of sale as are consistent with possession of the goods remaining with the grantor, and if it is intended that possession should at once be given, the Acts do not apply.

Ordinary powers of distress are not within the Acts, but powers of seizure contained in leases by way of distress for recovery of a debt, e.g. a brewer's lease containing a power to seize stock-in-trade and effects of the lessee in default of payment of his account is a bill of sale. Again, in building agreements, if materials brought upon the premises for purposes of building are to be considered as immediately attaching to the land it is not a bill of sale, because the interest in the materials is *qua* landowner a legal one.

Bills of Sale.

Licences to seize are generally to be found in hire purchase agreements, but the Bills of Sale Acts do not apply for the reason that the hirer is not the owner of the chattels, and, therefore, the licence merely empowers the owner to retake possession of his own property ; but if there is a sale and a subsequent independent contract of hire, it may or may not be a bill of sale dependent upon what was the real transaction, for if the object of the transaction was a loan of money intended to be secured by a sale and hiring agreement, the documents embodying the arrangement will be within the Act.

Agreements, whether intended or not to be followed by the execution of any other instrument by which a right in equity to any personal chattels or to any charge or security thereon are bills of sale, so that a written agreement to give a bill of sale or purporting to confer a charge when relied on to support a title to goods is within the Acts. The right affected by the Acts is a right in equity as distinguished from a right in law, and if a legal right is given, this provision of the Act does not apply.

Reeves v. Barlow (12 Q.B.D. 436), building materials on land.

Spencer v. Midland Railway (11 T.L.R. 542), lien on goods in possession.

Lord v. Great Eastern Railway (2 K.B. 54), agreement affecting goods not in the company's possession. Bill of sale.

Certain instruments giving a power of distress are by Section 6 of the principal Act deemed to be bills of sale.

Before the Act an attornment clause inserted in a mortgage deed gave an additional security by way of distress for both principal and interest, and could be exercised not merely on goods of the borrower but on those of a stranger, as where after a mortgage with an attornment clause the mortgagor let to a tenant who assigned certain of his goods on the premises by a bill of sale, on the original mortgagee seizing goods as distress for rent in arrear under the attornment clause, it was held that the distress was justified and that the bill of sale holder could not recover damages for the seizure. *Kearsley v. Phillips* (11 Q.B.D. 621).

Such an attornment clause is now included in the principal Act, which applies whether the distress be on goods of a third party or of the borrower, and whether the power of distress is express or claimed as incident to the demise.

But mining leases are expressly excluded.

Seeing that the instrument is only deemed to be a bill of sale of any personal chattels which may be seized or taken under the power of distress, it need not be in the statutory form, though for the purpose of registration it is treated as one, and if unregistered is void so far as regards chattels, which may be seized or taken under the power. *Green v. Marsh* (1892, 2 Q.B. 330).

When a mortgagee in possession demises to the mortgagor at a fair and reasonable rent it is provided that it is not within the Act, but

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it only extends to cases where the mortgagee was in actual possession and subsequently demised the property to the mortgagor.

Documents expressly excluded by the Act are :—

(1) *Assignments* for benefit of creditors.

These must be available for all creditors, though a time limit be fixed within which to accede.

(2) *Marriage settlements.*

These refer to ante-nuptial settlements.

(3) *Mercantile transfers.*

(a) Transfers of ships.

By the Merchant Shipping Act transfers or mortgages of ships or any share thereon are required to be by bill of sale in a prescribed form, and take priority according to date of registration, but although the transfer or assignment is not in the form given by that Act and is not registered, it will not be within the Bills of Sale Acts.

(b) *Transfers in ordinary course* of business of any trade or calling.

These include bills of sale of goods in foreign parts or at sea, bills of lading, India warrants, warehouse-keepers' certificates, warrants or orders for the delivery of goods, or any other documents used in the ordinary course of business as proof of the possession or control of goods or authorising or purporting to authorise either by endorsement or by delivery the possession of such documents to transfer or receive the goods thereby represented.

"Ordinary course of business" means that course which is commonly recognised and adopted by persons in the particular trade or calling.

(4) *Debentures.*

These are debentures created by an incorporated company for the registration of which provision is made by the Companies Clauses Act, 1845, or the Companies Acts, 1907. But the exception does not extend to debentures of a society registered under the Industrial and Provident Societies Act, 1893, there being no provision made by those Acts for the registration of debentures of such a society.

Subject Matter.

Bills of sale relate to personal chattels only, and the expression "personal chattels" is, for purposes of the Acts only, accordingly defined to mean—

- (1) Goods, furniture, and other articles capable of complete transfer by delivery.
- (2) Growing crops when separately assigned or charged.
- (3) Fixtures where assigned or charged separately from the land.
- (4) Trade machinery as defined in the amending Act.

Bills of Sale.

The expression does not include chattel interests in real estate nor fixtures, except trade machinery or growing crops when assigned together with a freehold or leasehold interest in any land or building to which they are affixed or which they grow, nor shares or interests in the stock, funds, or securities of any Government or in the capital or property of any incorporated or joint-stock companies, nor choses in action, nor any stock or produce upon any lands or farms which by virtue of any covenant or agreement or of the custom of the country ought not to be removed from any farm where the same are at the time of making or giving of such bill of sale.

The description of personal chattels is only for the purposes of the Bills of Sale Acts.

Absolute Bills of Sale.

An absolute bill of sale is not required to be in a particular form, but certain requisites must be complied with.

The consideration must be clearly set forth and with accuracy, it will be sufficient if the facts are set forth according to their legal or mercantile effect—*Richardson v. Harriss* (22 Q.B.D. 268)—and the consideration may be a pre-existing debt, but it is safer under those circumstances to state the same.

If there is any arrangement whereby the bill of sale may be avoided—called a defeasance under the Act—or any condition or declaration of trust, subject to which the bill of sale is given, the same must, unless it is contained in the body of the bill, be written on the same paper as the bill before registration and also be set out in the copy filed for registration, otherwise the registration will be void. *Edwards v. Marcus* (1 Q.B. 587).

Attestation.

Absolute bills of sale must be duly attested, viz. by a solicitor, and the attestation must state that the effect of the bill of sale had, before the execution took place, been fully explained to the grantor by such solicitor.

Registration.

This must be made in the central office of the High Court of Justice within seven clear days of execution of the bill of sale.

The original bill has to be presented to the registrar, together with any schedule or inventory annexed.

A true copy is filed, together with an affidavit, (1) of the time when the bill of sale was given; (2) of its proper execution and attestation; and (3) a description of the grantor and every attesting witness.

Registration must be made within seven days after the making or giving thereof, during which period the bill of sale, if otherwise valid, will be effectual though unregistered.

Registration must be renewed once at least in every five years, otherwise the registration becomes void.

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Where the registration or renewal thereof has not been made within the prescribed time through accident or is due to inadvertence, a Judge of the High Court may extend the time upon terms as he may think fit, but such extension will only be granted subject to rights of third parties. *In re Parsons* (2 Q.B. 122).

A transfer or assignment of a registered bill of sale does not need to be registered.

If the transfer of an absolute bill of sale be effected by an instrument which is also registered as a bill of sale, the transferee's title will be protected as against an execution creditor of the grantor of the original bill of sale, even though registration of the original bill of sale be not renewed and the goods remain in possession of the grantor if at the time of transfer no person was in a position to avoid the original bill of sale. *Antonidi v. Smith* (2 K.B. 589).

Avoidance.

An absolute bill of sale is not invalid under any provision of the principal Act, but it provides by Section 8 that unless the bill of sale is duly attested and registered under the Act within seven days of the making or giving thereof, and sets forth the consideration for which the bill of sale was given it will be void against trustees or assignees in the grantor's bankruptcy or liquidation, or under any assignment for the benefit of his creditors or an execution creditor as far as goods comprised in the bill of sale, which are at or after the time of filing the petition for bankruptcy or liquidation, or execution of such assignment, or of execution of such process, and after the expiration of such seven days, in the possession or apparent possession of the grantor.

Conditional Bills of Sale.

A conditional bill of sale—that is, one given by way of security for the payment of money by the grantor—is absolutely void, even as between the grantor and the grantee unless it complies with certain requisites and forms.

The form which is given in the Act is that of a deed, and it follows that if an instrument comes within the description of a bill of sale under the principal Act it cannot be reduced to the statutory form, and cannot be given by way of security at all.

It might be more convenient to deal with the principal points of the form.

Names of Parties.

The name should be the proper name, which may be a trade name, when sufficient to identify the party, and the addresses and description of the same must be given.

Consideration.

The consideration must amount to £30 at least and be truly set forth.

Chattels.

Chattels not capable of being specifically described cannot be included in the assignment, and a bill of sale is void if it includes

Bills of Sale.

chattels which may become the property of the grantor, because by Section 5 a bill of sale is void, except as against the grantor, in respect of any personal chattels specifically described in the schedule thereto of which the grantor was not the true owner at the time of the execution of the bill of sale.

Sum.

A fixed sum must be secured, a bill of sale cannot be given as an indemnity. *Hughes v. Little* (18 Q.B.D. 32).

Interest.

This must be rateable, either per month or per year as agreed upon. The amount of interest payable and its time of payment must be certain.

Time for Repayment.

This must be at a stipulated time or times ; it cannot be provided for either on or after demand.

If payment is to be by instalments, the bill of sale may provide that in case of default of any payment the whole of the unpaid principal with interest then due shall become payable immediately.

Terms for Maintenance or Defeasance of Security.

The form uses the express terms " as to insurance, payment of rent, " or otherwise which the parties may agree to for the maintenance " or defeasance of the security."

No other agreements can be included.

Maintenance means the preservation of the personal chattels in as good a condition as when the security was created, and an agreement may be made whereby articles worn out should be replaced.

Seizure.

The grantee can only seize the goods or chattels in certain events. (*See below.*)

The bill of sale would be void if it contained power to seize in events not permitted by the Acts.

Attestation.

This must be by one or more credible witnesses who are not parties to the bill, and an accurate description of the person given, if he has no occupation, also the address.

Registration and re-registration.

This is made in the same way as an absolute bill of sale.

Where the affidavit accompanying the bill of sale for registration describes the residence of the grantor as being outside the London bankruptcy district, or where the bill of sale describes the chattels as being in some place outside the said district, the registrar must, within three clear days after registration, transmit an abstract in a form prescribed by the rules to the registrar of the County Court in whose

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district such places are, and if such places are in different districts, then to each such registrar, for purposes of filing and inspection, if required.

Avoidance.

A conditional bill of sale is void—

- (1) If not duly attested.
- (2) If it is not duly registered.
- (3) If the consideration is not truly stated.
- (4) If it is not in accordance with the statutory form.
- (5) If the consideration is under £30.
- (6) If it is what is called a successive bill of sale, that is, if it is executed within or on the expiration of seven days after the execution of a prior unregistered bill of sale and given for the same or part of the same debt and comprises all or any part of the same chattels.

The registration of a bill of sale is void if the bill is given subject to an unregistered defeasance, condition, or declaration of trust, or if the bill is not renewed once at least every five years.

The extent of avoidance is not the same in all cases; if the bill of sale is void on the ground of not being in the statutory form, it is void altogether, so that any agreement contained in it cannot be enforced—*Davies v. Rees* (17 Q.B.D. 408)—also if the consideration is under £30.

But want of due registration, attestation, true statement of consideration, or renewal of registration only avoids a bill of sale in respect of the personal chattels comprised therein, leaving it available for the enforcement of agreements for principal and interest or for other purposes.

A bill of sale is also void except as against the grantor in respect of chattels which are not specifically described in the schedule, Section 4, or of which the grantor is not the true owner, Section 5.

Bills of sale are of no protection against a distress for taxes, poor or parochial rates. Section 14.

Remedies of the Grantee.

In cases of absolute bills of sale, not only the property in the goods passes but also the right of possession, but in conditional bills of sale the right of possession remains provisionally in the grantor, and the grantee is only entitled to seize the goods for the causes specified in the Amendment Act, Section 7, viz. :—

- (1) If the grantor makes default in payment of any money secured at the time provided for payment. *Re Wood* (1 Q.B. 605), or in the performance of any of the covenants contained in the bill and necessary for maintaining the security.

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- (2) If the grantor become *bankrupt* or suffer the goods or any of them to be distrained for rent, rates, or taxes.

Bankrupt means adjudicated so.

- (3) If the grantor fraudulently either removes or suffers the said goods or any of them to be removed from the premises.
- (4) If the grantor refuses without reasonable cause upon demand in writing by the grantee to produce to him his last receipts for rent, rates, and taxes.
- (5) If execution shall have been levied against the goods of the grantor under any judgment at law.

Upon seizure the grantor has the same power of sale as a mortgagee of land, but the goods must remain on the premises where so seized or taken possession, and must not be removed or used until after the expiration of five clear days from the day they were so seized or so taken possession of, but removal may take place with the grantor's consent.

The grantee is a secured creditor and superior to claims by any other creditor except the landlord, and priority depends upon the date of registration.

Remedy of the Grantor.

A bill of sale in statutory form vests the chattels assigned in the grantee, leaving the right of possession in the grantor until any of the above specified events occur.

If the grantor has any ground upon which he can impugn the transaction either that the bill of sale is void or that the seizure is irregular, his remedy is to apply for relief to the High Court, or Judge in Chambers within five days of the seizure, or, after that time has elapsed, to take proceedings for redemption. If the Judge is satisfied that the grantor has *prima facie* a good cause of complaint and that, by payment of money or otherwise, the cause of seizure no longer exists, he may restrain the grantee from removing or selling the goods or make such other order as he thinks just.

If the grantor makes due payment, or tenders the same on the day appointed for payment, the grantee will be responsible for damages in case he seizes the goods.

Stamps.

A bill of sale is not to be registered unless the original, duly stamped, is produced.

An absolute bill of sale is stamped as a conveyance with an *ad valorem* duty on the amount of the consideration for the sale.

A conditional bill of sale is stamped as a mortgage.

Books of the Month.

A SHORT VIEW OF THE LAW OF BANKRUPTCY. By the late EDWARD MANSON. $7\frac{1}{2} \times 5$, xl + 374 pp. Third edition, 15s. n. Since the last edition of this work was published, ten years ago, the Bankruptcy Act, 1914, and the Deeds of Arrangement Act, 1914, have been passed, and the book has accordingly been revised and brought up to date by Mr. A. Manson. It is a useful addition to the library of both the student and the business man.

PARTNERSHIP LAW AND ACCOUNTS. By R. W. HOLLAND, O.B.E., M.A., M.Sc., LL.D. $7\frac{1}{4} \times 4\frac{3}{4}$, 118 pp. 6s. n. This book is written for students of law and accountancy, and the law relating to partnership is carefully explained and illustrated with *pro forma* examples.

ACCOUNTING. By SIDNEY S. DAWSON, M.Com., F.C.A., and R. C. DE ZOUCHE, F.C.A. $8\frac{1}{2} \times 5\frac{1}{2}$, vii + 283 pp. 10s. 6d. n. This work is for those who are beyond the elementary stage and is intended as an introduction to the practical application of the science of accounting in general.

PUBLIC LIABILITY INSURANCE. By J. B. WELSON, F.C.I.S., Barrister-at-law. $7\frac{1}{4} \times 4\frac{3}{4}$, 118 pp. 5s. n. A text-book for the student preparing for the accident branch of the examinations of the Chartered Insurance Institute.

THE ACCOUNTANTS' MANUAL, Vol. XVII, Part IV, being the questions set at the examinations of the Institute of Chartered Accountants, with answers thereto. Intermediate and Final, May-June 1920. 2s. 6d. Post free 2s. 9d.

THE INCORPORATED STUDENTS' TELEPHONE, No. 21. Being the questions and answers to the Intermediate and Final Examinations of the Society of Incorporated Accountants and Auditors. June 1920. Answers by D. F. de l'Hoste Ranking, M.A., LL.D., and Spicer & Pegler, Chartered Accountants. 10×8 , 73 pp. 2s. 6d., post free 2s. 8d.

Legal Notes.

By Albert Crew, Barrister-at-Law.

An up-to-date knowledge of recent decisions in the Courts is of the greatest value to accountants and business men and to students reading for their examinations. In this column are noted the salient features of the leading cases decided during the preceding month.

Action (Cause of).

Conservation of Prices, and Threat to put on "Stop List."

The plaintiffs, who were dealers in motor cars, but not members of the defendant association, were asked by a customer to dispose of a car which he had ordered, but which he found he did not require. They accordingly advertised the car for sale at a price which would give them and their customer a profit. The defendant association threatened unless the plaintiffs undertook to advertise cars for sale at a price different from the price named in the "protected list," and paid £50 to a trade benevolent fund, their name would be put on a "stop list," the object of which was to fix sale prices, and to prevent persons named in it from obtaining the articles in the protected lists of the association. The plaintiffs, having issued a writ for an injunction, were then put on the stop list. Held, that as the defendants had committed a wrongful act by attempting to prevent the plaintiffs by threats from making a lawful disposition of their customer's property, the plaintiffs were entitled to an injunction, but in the circumstances only against the individual members of the association who had taken part in the wrongful act, and not against the association itself. *Ware & de Freville v. Motor Trades Association* (1920, 36 T.L.R. 664).

Bankruptcy.

Deed of Assignment for Benefit of Creditors.

The defendants acted as bankers of a firm up to February 3rd 1914, when the firm, being insolvent, assigned by deed all their property to the plaintiff as trustee for their creditors. The deed provided that payments to the creditors should be made upon the basis of a bankruptcy distribution of the property, and that secured creditors should have the same rights as under a bankruptcy. At the date of the deed the firm had £2,934 to the credit of their current account in the defendant bank, and the bank held certain shares as security for an advance to the firm. These shares were subsequently sold by the bank, and realised £812 in excess of the amount of the advance to the firm. Before February 3rd 1914 the firm had discounted with the bank a number of bills of exchange which matured after date, and in respect thereof the firm became debtors of the bank of £19,941. In an action by the plaintiff to recover from the bank £2,934 and £812, the bank claimed a lien on those sums, and also to set off a sufficient portion of £19,941 against those sums. It was held that the bank's claim was right on both points. *Baker v. Lloyds Bank* (1920, 2 K.B. 322).

Companies.

Redemption of Debenture Stock at a Discount.

The defendant company was a Trust Investment Company, and one of its objects was the borrowing on debenture stock and redeeming or paying off any moneys so borrowed, and the acquiring and holding stocks, shares and securities, and changing them for others of like nature. The business and accounts of the company were conducted and kept on the footing that

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profit or loss on a change of investment was carried to Capital Account, and that net receipts over expenditure were carried to Revenue Account, and became available for payment of dividends without regard to any depreciation in the market value of investments. In 1910 the company issued at par a sum of debenture stock, and in 1918, owing to the general fall in the value of securities, the directors were enabled to redeem some of the debenture stock at a discount, and they claimed the right to carry the whole amount of this discount to Revenue Account. The securities of the company had fallen to an extent approximately equivalent to the discount at which the debenture stock had been redeemed. It was held that the discount was not a profit which could be distributed as dividend. *Wall v. London & Provincial Trust* (1920, 36 T.L.R. 729).

Substitution of Memorandum and Articles for a Deed of Settlement.

Where a company constituted by a deed of settlement has passed a special resolution to alter the form of its constitution by substituting a memorandum and articles for the deed pursuant to Section 264 of the Companies Consolidation Act, 1908, the special resolution requires to be confirmed by the Court under Section 264, even if the memorandum does not make any change in the objects of the company. *In re The Braintree & Bocking Gas Co.* (1920, 2 Ch. 12).

Contract.

An Agreement to Collect Gaming is Void and Champertous.

The plaintiff carried on business, of which he was the sole proprietor, as the "Turf Register," which in a prospectus issued by him was called a "society," and in consideration of a subscription he undertook to collect for subscribers betting debts which, under the Gaming Acts, were not recoverable. The plaintiff having put certain moneys in the "society" for legal and other expenses, it was agreed that the net profits of the said society should be divided between the claimant and the society. The plaintiff brought an action to recover the amount of debts alleged to have been collected by the defendant. It was held that the agreement was illegal and void, being contrary to public policy and champertous, as there was no community of interest between the parties, except such as was created by the agreement itself. *Ford v. Radford* (1920, 36 T.L.R. 658).

Damages Payable in Foreign Exchange at Rate of Exchange.

In the case of breach of a contract under which payment is to be made in foreign currency, the damages are fixed at the date of default, and amount to such a sum as would have produced the required sum in the foreign currency at that date, and not at the date of the judgment. *Barry v. Van den Hurk* (1920, 36 T.L.R. 663).

Sale of Goods. Absence of Manufacturer's Label.

When goods are sold as being of a particular brand, the undertaking is that they will bear the label of the manufacturer, which is put on the goods of that brand in the ordinary course of the business, and there is no obligation on the purchaser to accept goods which do not bear the label, although the goods have been made by that particular manufacturer. When goods sold have gone to a wrong port, the buyer is not deemed, under Section 34 (1) of the Sale of Goods Act, 1893 (which provides that where goods are delivered to the buyer which he has not previously examined, he is not deemed to have accepted them unless and until he has had a reasonable opportunity of examining them), to have accepted them merely because he has not made arrangements to have them examined as soon as he heard of their arrival at the unexpected port. *Scaliaris v. Ofverberg* (1920, 36 T.L.R. 743).

Legal Notes.

Gaming.

Cheques Given for Racing Bets.

The Gaming Act, 1835, provides, *inter alia*, that bills given for money lost in bets on horse races are to be deemed given for an illegal consideration, and that in case any person shall give to any holder, the amount of such bills shall be deemed and taken to have been paid for and on account of the person to whom such bills was originally given upon such illegal consideration, and shall be deemed and taken to be a debt due and owing from such last named person to the person who shall so have paid such money, and shall accordingly be recovered by action at law. The loser of bets on horse races drew in favour of the winner cheques crossed "account payee, not negotiable." The winner endorsed the cheques in blank, and paid them into an account with his bankers, which was his own account though in his wife's name. The bankers credited the account with the amount of the cheques, and then presented and obtained payment of them. In an action by the loser against the winner under the Gaming Act to recover the amount of the cheques as having been paid to a holder, it was held that the word "holder" includes other persons in lawful possession of a bill, though they be not holders in due course, and, therefore, includes a banker who receives the bill for collection, and that the bankers being the holders of the cheques the plaintiff was entitled to recover. *Dey v. Mayo* (1920, 2 K.B. 346).

Registration by Bookmakers as "Accountants."

The plaintiffs, who were bookmakers, in their application under the Registration of Business Names Act, 1916, described the general nature of their business as "accountants," and claimed from Ralston £997 17s. 11d. of cheques drawn by him payable to the plaintiffs and delivered by him to them in payment of betting debts which he had lost to them, and which had been dishonoured on presentation, and a further sum of £13 18s. 10d., the amount of a cheque sent by the plaintiffs to defendant in payment of bets won by him from them and duly paid on presentation by the plaintiffs' bankers to the defendant's bankers under Section 2 of the Gaming Act, 1835, as money received by the defendant to the use of the plaintiff for an illegal consideration. *Inter alia*, the defendant claimed that the sums could not be recovered on the ground that they had not complied with the provisions of the Registration of Business Names Act, 1916. In giving judgment for the defendant, Darling, J., held upon the authority of *Hyams v. Stuart* (1908, 2 K.B. 196), that the plaintiffs, being an association for the purpose of carrying on a betting business, the action would not lie, and as to the £13 18s. 10d., the plaintiffs' claim was bad, following *Dey v. Mayo* (*supra*), because it was a payment made to the defendant's bank, which was, to the plaintiffs' knowledge, a mere agent of the defendant to collect the money. As to the Registration of Business Names Act, 1916, the plaintiffs' description of their business as accountants was not sufficient to satisfy Section 3, Sub-section 1 (b), of the Act (i.e. to state the *general nature of the business*), but *without deciding the point*, he was inclined to think that the plaintiffs had not made "default" within the meaning of Section 8, Sub-section 1, of the Act (which provides, where any firm or person required by this Act to furnish a statement of particulars or of any change in particulars, shall have made default in so doing, then the rights of that defaulter, under or arising out of any contract made or entered into by or on behalf of such defaulter in relation to the business in respect to the carrying on of which particulars were required to be furnished at any time while he is in default, shall not be enforceable by action or other legal proceeding, either in the business name or otherwise), inasmuch as "default" in the sub-section means not furnishing a statement of particulars at all, as distinguished from furnishing insufficient particulars. *O'Connor v. Ralston* (1920, W.N. 267).

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Partnership.

When a Partner "Retires" from a Firm.

The defendant was a partner of a firm, and agreed by a deed of settlement to pay to the trustee thereof £10,000 within six months from his retirement from the firm. Subsequently a private limited company was formed, in which the partners became directors, the principal object of which was to acquire the business of the defendant's firm. It was held that retirement connoted something like a voluntary act, and here all the partners had acted voluntarily. If all the members of a commercial but not a legal entity sold the business of the firm to a company, it could not be said that they had not retired from the firm. Hence the defendant was liable to pay the sum of £10,000 to the trustee of the deed. *Earle v. Cow* (1920, 36 T.L.R. 712).

Railways.

Control of Passengers' Luggage.

The plaintiff booked two berths for himself and his wife in a sleeping car on the defendants' railway, and having arrived at the station more than an hour before the train was due to start, allowed one of the defendants' inspectors to have the luggage put in the sleeping compartment on the inspector's assuring him that it would be perfectly safe. The plaintiff then left the station to have a meal, and on his return found that the luggage had been stolen. It was held that the defendants had taken control of the luggage down to the time of its loss, and the plaintiff was entitled to recover its value. *Steers v. Midland Railway Co.* (1920, 36 T.L.R. 703).

Wills and Executors.

Gift of Life Interest Subject to Residence on Certain Property every Year.

Where trustees are directed by a will to pay the income of the residuary estate to the tenant-for-life of certain property during such period of his life as he should reside on that property for a limited period in every year with a gift over of such income in the event of the tenant-for-life ceasing or declining so to reside, personal residence for that period is necessary in order to entitle the tenant-for-life to the income and the maintenance of an establishment is not sufficient. *In re Vivian* (1920, 36 T.L.R. 657).

Gift of Annuity Free of Income Tax and of all other Deductions.

Testator, by a codicil, gave to his wife an annuity of £2,500, free of income-tax and of all other deductions, and directed the trustees to set aside in their names a portion of the securities forming his residuary estate to form a fund, the income of which would be fully sufficient to provide the said annuity and the income-tax payable in respect of the same. It was held that the widow was entitled to the naked amount of the annuity free from both income-tax and super-tax, and following in *re Bowring* (1918, W.N. 265), the income of the residuary estate must bear such proportion of the total super-tax payable by the widow as the annuity, with the income-tax thereon added thereto, bore to the total amount of her income assessed for the purposes of super-tax. Super-tax, according to statute, was only additional income-tax, and the difference between the two was in the mode of collection, and apart from that the legal positions of the two taxes were substantially the same. *In re Doxat* (1920, W.N. 262).

Admissibility of Evidence as to Nature of Legatee's Work.

A testatrix bequeathed her residuary estate for missionary purposes to G. J. It was held that the Court could admit evidence that the testatrix had often met G. J. at conferences of Christian workers; that she had sent him considerable sums of money to aid him in his work as the pastor of a church devoted to Evangelistic services; and that having regard to that evidence the gift was not void for uncertainty but was a good charitable gift. *In re Rees* (1920, 2 Ch. 59).

Students' Society Notes.

The Chartered Accountant Students Society of London.

The Thirty-seventh Annual General Meeting of the above Society was held at the Institute of Chartered Accountants, Moorgate Place, E.C., on Wednesday, June 30th, Sir William Plender, G.B.E., F.C.A., the President, in the chair.

The President proposed the adoption of the Report and Accounts, which was seconded by Mr. E. Furnival Jones, A.C.A., and carried unanimously.

Mr. F. J. B. Gardner, A.C.A., then proposed the following resolution: "That Rules 8 and 9 be cancelled, and the following substituted therefor":—

Rule 8.—The entrance fee to the Society for ordinary members shall be ros., and shall be payable together with the first subscription on application for admission to the Society.

Rule 9.—The subscriptions to the Society shall be payable in advance on the first day of January in each year, and shall be as follows:—

(a) Honorary members who have been in practice for more than three years, and ordinary members, £1 is.

(b) Other honorary members ros. 6d.

It was explained that these increases were necessary owing to the growth in the expenses of the Society, and the fact that the accounts for the year ended 31st December 1919 show a deficit of £160 11s. 10d.

Mr. E. Furnival Jones seconded the resolution, which was duly carried.

The following officers were re-elected for the ensuing year:—President, Sir William Plender, G.B.E., F.C.A.; Vice-Presidents, Messrs. Ernest Cooper, F.C.A., John G. Griffiths, C.V.O., F.C.A., F. W. Pixley, F.C.A., and G. van de Linde, F.C.A.; Hon. Treasurer, Mr E. Furnival Jones, A.C.A.; Hon. Auditors, Messrs. J. W. Woodthorpe, F.C.A., and A. Charlesworth, F.C.A.

Messrs. N. D. Ashley, B.A., H. J. Crane, F. J. B. Gardner, M.C., A.C.A., and R. G. Rawkins, were elected to serve on the Committee.

The Society's Coaching Classes for the recent Institute Examinations have proved an unqualified success. All the students prepared for the Final Examination passed, one gaining the second place in the Honours List. At the Intermediate Examination, 80 per cent. of the candidates prepared by the Society were successful, the third place in the Honours List being captured by a Society man. These figures speak for themselves of the high standard of efficiency attained by the methods of coaching employed.

The Society's Coaching Classes offer to the student a class restricted in size, ensuring individual tuition. Each candidate is provided with specimen answers and references to text-books in the case of all written work, Law Notes in printed form can be obtained, the student thus having notes on the legal questions of the Examinations in the most concise form always at hand. These notes save a considerable amount of time in class, which can therefore be devoted to more useful instruction. A special feature is made of Costings, Income-Tax, and Excess Profits Duty.

The prizes offered by the Society in connection with the recent Institute Examinations have been awarded as follows:—

FINAL EXAMINATION.

Place.

A. R. Sweet	...	2nd	...	1st prize	...	£6 6 0
P. V. Roberts	...	3rd	...	2nd "	...	£2 2 0

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INTERMEDIATE EXAMINATION.

Place.

J. W. Park ... 3rd ... 1st prize ... £2 2 0

The prizes kindly offered by Sir William Plender, G.B.E., F.C.A., in connection with the Coaching Classes were awarded as under :—

FINAL EXAMINATION.

A. R. Sweet £10 10 0

INTERMEDIATE EXAMINATION.

J. W. Park £5 5 0

Full particulars of the Classes, prizes offered, &c., will be sent on application to the Secretary. It is urged that candidates sitting for the November Examination should enrol forthwith.

The Elementary and Advanced Classes in Bookkeeping, Accounts and Auditing, and in Law, will commence on the 10th September and 9th September respectively. Ten lectures in each subject will be held as usual. The Elementary Classes are free to all members of the Society, and a fee of £1 is. is payable in respect of each of the Advanced Courses.

At the Examinations held at the end of last session in connection with these courses, the following candidates passed with Honours, and prizes were awarded as stated :—

FREE ACCOUNTS CLASS.

1. F. A. Pratley.
 2. R. Boniwell ... 1st prize ... £1 1 0
 3. A. E. Balcombe ... 2nd „ ... 10 6
 4. C. H. Fenner.
- 52 per cent. of the candidates passed.

FREE LAW CLASS.

1. H. J. Jones ... 1st prize ... £1 1 0
 2. A. V. Adkins ... 2nd „ ... 10 6
 3. J. D. Levy.
 4. R. O. Boniwell.
- 56 per cent. of the candidates passed.

ADVANCED ACCOUNTS CLASS.

1. F. W. Charles ... 1st prize ... £1 1 0
(Awarded by Messrs. de Paula,
Turner, Lake & Co.)
 2. E. H. Eastoe.
 3. H. W. Sydenham.
- 77 per cent. of the candidates passed.

ADVANCED LAW CLASS.

1. A. R. Sweet ... 1st prize ... £1 1 0
2. F. W. Charles.

All the candidates passed.

Full particulars of these classes will be forwarded on application.

The Society promises an extensive programme of lectures, &c., during the ensuing Autumn Session, commencing at the latter end of September. Among the lecturers who have kindly promised to render their services are Sir Basil E. Mayhew, K.B.E., F.C.A., Mr. F. R. M. de Paula, O.B.E., F.C.A., and Mr. Herbert Jacobs, B.A., Barrister-at-Law. Further particulars will be announced in the next publication of the *Accountants' Journal*, and will be posted to all members of the Society.

Students' Society Notes.

The Leicester Chartered Accountants Students' Society.

The Annual General Meeting of the above was held on June 17th at 4 New Street, Leicester. In the absence of Mr. R. V. Rodwell, A.C.A., the chair was taken by Mr. R. Dunn. The business was principally of a formal nature. The Committee's Annual Report and the Treasurer's Accounts were placed before the meeting and adopted. The Society is in a much better financial position than might be expected.

Although the Accounts show a deficit, this is not a serious matter, amounting only to £9 17s. 3d.

Coaching Classes were not held during the past session, but it is hoped to be able to hold them during the next. The only reason for their being discontinued was a financial one. The matter is referred to in the Committee's Report.

The meeting resolved that the Committee investigate the subject of these classes, and estimate the probable cost of holding them. The Committee's finding on the matter will be circulated to members.

In accordance with the Rules all the officers retire, and new officers were elected for the forthcoming session as under:—

President.—Mr. L. V. Wykes, F.C.A.

Vice-Presidents.—Mr. W. H. Yates, A.C.A., and Mr. A. P. Carryer, A.C.A.

Chairman of Committee.—Mr. R. V. Rodwell, A.C.A.

General Committee.—Messrs. E. E. Smith, R. Dunn, W. G. Foreman, and C. E. Breame.

Hon. Treasurer and Librarian.—Mr. F. W. H. Clarke, A.C.A., A.S.A.A.

Representative on the Union of Students' Societies.—Mr. R. V. Rodwell, A.C.A.

Hon. Secretary.—Mr. G. G. Cooke, A.C.A.

Hon. Auditors.—Messrs. E. E. Smith and J. K. Burton.

At the close of the meeting a number of new members were enrolled.

South Wales and Monmouthshire Chartered Accountant Students' Society.

The chief event to record this month is our first and long-wished-for meeting with our neighbour, the Bristol Students' Society, on Wednesday, 7th June. It had been arranged to meet at Brown's Café, Weston-super-Mare, for lunch, and afterwards to play a cricket match at the County ground. Our eleven, with about 20 supporters (by kind permission of the principals concerned), made the cross-Channel voyage during the morning, and wickets were pitched at 2.30. Bristol batted first, and, notwithstanding a sweeping drizzle, hit up the useful score of 104. A further heavy downpour had made the wicket most difficult, and our batsmen failed utterly to rise superior to the conditions, being all out for a paltry 28! We longed for another attempt, but the groundsman was adamant. Meteorologically, the event was a failure; sportingly and socially it was a tremendous success, and we shall look forward with great eagerness to further pleasant meetings with our friends at Bristol.

Rumour has, on this occasion, proved herself to be truthful, and our hopes of a "home" have materialised. It has been arranged for the Senior and Students Societies to share with the local Society of Architects their rooms at 5 High Street, Cardiff, and future meetings and classes will be held there.

Our congratulations to Messrs. Wentworth H. Price, F.C.A., and Walter Meacock, F.C.A., on their well-merited election as President and Vice-President respectively of the Senior Society.

Also congratulations to C. E. McLay and F. R. Lowther on their recent examination successes.

A Mock Shareholders' Meeting.

A very lively and enjoyable meeting of the Sheffield Chartered Accountants Students' Society was held on Wednesday, 24th March, the occasion being the second annual general meeting of the Rubbem and Tearem Laundry, Ltd.

The following is a copy of the notice convening the meeting, and the Directors' Report and Accounts :—

To the Shareholders of "The Rubbem and Tearem Laundry, Limited."

NOTICE IS HEREBY GIVEN that the second annual general meeting of the above company will be held at the Library, Hoole's Chambers, Bank Street, Sheffield, on Wednesday, the 24th day of March 1920, at 6.45 p.m. precisely.

AGENDA.

- (1) To adopt Report and Accounts for the year ending 31st December 1919.
- (2) To elect directors and auditor for the ensuing year.
- (3) To transact other business capable of being transacted at an ordinary general meeting.

22nd March 1920.

WORTHABIT,
Chairman.

REPORT AND ACCOUNTS.

THE RUBBEM AND TEAREM LAUNDRY, LTD.

Directors : Lord Worthabit, R.I.P. (Mr. S. E. Warburton), Sir A. White-Cuff (Mr. B. E. Brown), Major-General Worthington, P.C. (absent from meeting).

Solicitors : High Feese & Co. Auditors : Hardup & Broke
(Mr. H. C. Nicholson).

Bankers : Machon Bank, Ltd., Sheffield. Secretary : Fred Cheatham,
R.S.V.P. (Mr. F. Downing).

Registered Offices : Incinerator, Westbar.

Report of the directors to be presented to the shareholders at the annual general meeting to be held on March 24th 1920.

Gentlemen,

Your directors have pleasure in submitting the Balance Sheet and summarised Profit and Loss Account for the year ended 31st December 1919, showing a net loss of £120,000. No interim accounts were prepared at June 30th 1919, but it was thought that considerable profit had been made sufficient to warrant the declaration of an interim dividend of 20 per cent. Owing, however, to numerous strikes and disputes with the unruly artisan class, this state of affairs has not been maintained, in spite of attractive offers of co-partnership schemes, and it is with great regret that we publish the final figures. It is felt, however, that the results will be considered highly satisfactory when all these matters are taken into consideration.

By agreement with the preference shareholders, it has been arranged to pay their dividends as usual, as it is unfair that they should bear the brunt of unforeseen labour troubles and high prices.

The assets of the company have been maintained in an efficient state, and the directors have further pursued their wise and far-seeing policy of increasing the company's reserves in the matter of provisions for all ascertained and unascertained losses, including depreciation.

Sir A. White-Cuff, a director of the company, and manager in one of our numerous country branches, retires, and offers himself for re-election.

A Receiving Order in Bankruptcy having been made against the auditors on grounds of insolvency, the directors have decided that the books and accounts shall in future be audited by the company's officials, and it is hoped that no objection will be taken to this policy.

By Order of the Board,
FRED CHEATHAM, R.S.V.P.
Secretary.

THE RUBBEM AND TEAREM LAUNDRY, LIMITED.
(Registered under The Married Women's Property Act, 1882.)
BALANCE SHEET, December 31st 1919.

	£	£	£
Authorised Capital	2,000,000		
1,000,000 7% Preference Shares £1 each			120,000
1,000,000 Ordinary Shares £1 each			80,000
Issued Capital—			200,000
1,000,000 7% Preference Shares £1 each, issued at 17/6 fully paid	875,000		10,000
1,000,000 Ordinary Shares £1 each at par	1,000,000		620,000
100,000 Deferred Shares £1 each	100,000		50
100,000 Debentures issued at 110 redeemable in 1921 at 90	110,000		619,950
Less £30,000 purchased in open market at %	20,000		500,000
Mortgage on Leasehold Property	115,000		5,000
" Interest in arrear	28,000		
Sundry Creditors	30,000		
Bank Overdraft	50,000		
Collaterally secured by issue of Debentures			
Surplus to Contra	20,000		
	<u>£2,203,000</u>		
Profit and Loss Account—			
Loss on year's workings, less opening balance			120,000
Add Preference Dividend 8%			80,000
" Interim Dividend on Ordinary Shares 20%			200,000
Grant to Directors			10,000
Leasehold Land and Buildings			620,000
Less Depreciation			50
Plant and Machinery			500,000
Less Depreciation			5,000
Stock in Trade at Selling Price as certified by Managers (Miss Iona Ford)			235,000
Goodwill at Cost plus Adjustments			200,000
Sundry Debtors, Horses, Vans, Harness, and Articles of Apparel "lost" in process of washing Investments—			132,500
50,000 Shares £1 each in "Stiff & Starch Co., Ltd.," at issue price 5/1 paid			12,500
Surplus from Contra			20,000
Underwriting Commission and Flotation Expenses			32,500
Suspense Account			70,000
Cash in hand			7,550
Petty Cash in hand			100
			400
			<u>£2,203,000</u>

TO THE SHAREHOLDERS OF "THE RUBBEM & TEAREM LAUNDRY, LTD." AUDITORS' REPORT.

GENTLEMEN,

We have audited the Balance Sheet of the above Company, and although we have not obtained all the information we have required, in our opinion, being personal friends of the Managing Director, we are confident that what he has told us is more or less correct. We have, however, to report that there has been a slight oversight on the part of the aforesaid Managing Director, who informs us that the proceeds of the Transfer Fees were paid into his private account by mistake. This has, however, been adjusted, the Company now holds his IOU. Subject to the foregoing remarks we certify the attached Balance Sheet to be approximately correct.

SHEFFIELD,

March 21st 1920.

HARDUP & BROKE,
Auditors & Turf Accountants.

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The Chairman, addressing the meeting, said :—

Gentlemen : I am very pleased to see such a large attendance at this general meeting of the company : it shows what a keen interest you are taking in the welfare of the company.

As every shareholder has received a copy of the Report and Accounts, I propose to take them as read.

I am of opinion, with my co-directors, that no cause for complaint can arise regarding the financial position of the company in view of the company having paid an interim dividend of 20 per cent. The question of paying a final dividend rests entirely with yourselves but my co-directors and myself are of the opinion that such a payment would undermine the present doubted sound position of the company.

You will no doubt have observed that the stock-in-trade stands at the very high figure of £235,000, but as there are 5,666 genuine claims against the laundry for lost articles, such as shirts, pants, vests, and camisoles, it is thought that these articles have inadvertently been taken into stock by our exceedingly capable manageress, Miss Iona Ford. This, as you will see, accounts for the large increase in stock on hand, and I regret that owing to the fact that the claims were not brought to the notice of the Board until yesterday, it was too late to make the necessary adjustments.

The fact of the stock having been valued at selling price is quite legitimate in view of the increased cost of living.

I would here remark that the directors have unanimously agreed to waive their right to any further remuneration, having already received £10,000 in addition to their many and varied perquisites.

We very much regret that a Receiving Order in Bankruptcy has been made against the company's auditors, and we take this opportunity of suggesting that in view of their past excellent services they be granted an annual allowance out of the funds of the company until such time as they receive their discharge.

We are glad to be able to report that the working of the current year will show a much larger balance than for the year just closed, and we wish to thank all the shareholders for their presence here to-night, and for their loyal support during the past year, a support which has been justified by the result shown by the accounts.

I have now much pleasure in calling upon Mr. K. Paterson to move that the accounts, as presented, be approved.

Mr. K. Paterson, in moving the adoption of the Report and Accounts, asked why a dividend of 8 per cent. had been paid on 7 per cent. preference shares, and stated that that had been paid out of capital.

The Chairman : The 1 per cent. increase more than compensates for the increased cost of living.

Mr. Paterson : Why has this increase not been put before the shareholders in general meeting?

The Chairman : Well, as a matter of fact, circulars for the meeting were ready to be sent, and a fire broke out in the company's offices.

Mr. G. R. Simons : What is the auditors' opinion regarding the small depreciation allowed on the company's land and buildings?

Mr. A. Hardup (auditor) replied that there was not statutory requirement to comply with in this matter, and referred to the case of *The Ammonia Soda Co., Ltd. v. Chamberlain and Others* to confirm this view.

Mr. Simons : Even if it were not legally necessary to write off a proper sum under this head, should it not be done on the ground of prudence?

The Chairman replied that he considered the company's loss was quite heavy enough without burdening it with depreciation which did not exist.

Mr. A. E. Richards : I should like to know why and how the sundry debtors have got "lost in washing"? (Laughter.)

A Mock Shareholders' Meeting.

The Chairman: Several assets were aggregated under this head for convenience.

Mr. E. H. H. Holroyd: The Balance Sheet states that an interim dividend of 20 per cent. was paid during the year. Should not this have been 40 per cent. per annum?

The Chairman: This is a clerical error, it should have been 40 per cent. per annum.

Mr. Paterson commented on the splendid surplus of the collateral security over the loan from the Machon Bank, and proposed that this security should be very considerably increased, and the surplus used to wipe off the Profit and Loss balance. (Laughter.)

Sir A. White-Cuff and the Secretary concurred in this opinion, and explained that such a proceeding would put the company on a sound financial basis, and the Secretary was instructed to issue further debentures as collateral security in this way.

Mr. R. M. F. Gill, A.C.A.: In view of the very unsatisfactory replies given by the Board and their farcical conduct at this meeting, I should like to remind the Chairman that his position in a few minutes will not be as comfortable as at present, and urge all the shareholders to vote against the Report and turn down the directors. I should like to ask him a few questions that may disturb his calm air, firstly, who has run away with the £100,000 subscribed for in deferred shares? I took 20,000 of those shares, and the Chairman's statement a short time ago that the proceeds were not to hand is absolutely untrue, as I hold the certificate for the shares duly signed by the Chairman and a director. I should also like to know why the directors voted themselves a grant of £10,000 without disclosing the same to the shareholders, and remind them of their liability under the Companies Acts of £100 per day for nine months. Perhaps that will make them sit up. Also, would someone kindly inform the meeting under what article preference shares could be issued at a discount? Finally, why do not our ingenious Board take advantage of purchasing the company's debentures in the open market, and with the profit write off the leasehold land and buildings. I ask that a valuer be called in to make a proper estimate of this asset.

The Chairman replied that he treated the bulk of Mr. Gill's argument with contempt. In reply to his questions, the directors held a special meeting, empowered under the articles, to vote themselves a grant. As to the deferred shares, the Board were out of town at the time, and the company being badly in need of money, he personally lent the company £100,000, and took deferred shares as his security.

Mr. Paterson: What clause in the articles empowers directors to do this? I presume the company acts under Table "A," not having articles of its own?

The Chairman: May I remind you that the company is registered under the Married Women's Property Act, 1882, and Table "A" does not therefore apply. (Laughter.)

Mr. Gill: You have not yet answered my question regarding the 20,000 deferred shares which I myself hold.

The Chairman: This is a personal question, which I cannot answer in a general meeting.

A Shareholder: Why is the Profit and Loss balance placed at the head of the Balance Sheet?

Reply: This is a fixed asset, and in the opinion of the Board likely to remain fixed. (Laughter.)

A Shareholder: It appears clearly that the interim dividend has been paid out of capital, and proceedings should be taken at once.

The Chairman: Very well. If all of you have received the same kindly refund it to me, I will see that the company receives the money. (Laughter.)

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In reply to further questions it was stated that the "adjustments" on Goodwill Account were credits for the sale of soap, &c., which had been capitalised to avoid payment of Excess Profits Duty. (Laughter.) There were no minutes of the previous meeting owing to a fire; this also destroyed the accounts, and great difficulty had been encountered in making up the figures at all. He was sorry to say that Major-General Worthington, one of the directors, was in the City inspecting the Boy Scouts. (Laughter.)

A Shareholder: Is the IOU mentioned in the auditors' report included in the petty cash?

Reply: No, it is included in Suspense Account, with difference in balancing and sundry other matters. If the company is not satisfied with the IOU it can do the other thing. (Laughter.)

Mr. Slaney: I notice no interim accounts were prepared, and yet the Board felt justified in declaring a dividend of 20 per cent. How is this?

The Chairman: The auditors prepared interim accounts for directors' use only.

Mr. D. W. Trickett: What is the reason for the very large petty cash balance?

Reply: The office boy keeps this amount, and has very often to "sub" girls in the laundry to the end of the week.

Mr. Paterson: Are the auditors satisfied with the valuation of the assets, and have they verified their existence in a proper manner?—Perfectly.

Mr. W. W. Ward: Of what does the stock-in-trade of the laundry consist?

The Secretary: All articles of washing, clothing, household linen, &c., and ladies' and gentlemen's underwear, upon which the company have a lien for unpaid washing bills, are included in this figure. May I remind Mr. Ward also that if the company were an individual in bankruptcy, the trustee might take these under the "Order and Disposition" Clause, and in the circumstances the Board felt justified in taking them in as an asset.

Mr. Holroyd: Has the auditor verified the existence of the mortgage, as I am the solicitor of the first mortgagee, and have never left possession of the title deeds and mortgage deed.

Mr. Hardup: My clerk must have gone to the wrong office. (Laughter.)

Mr. Gill: Well, we have had many more unsatisfactory replies from the Board, who appear to be very ignorant of their duties. We appear to have no working capital, and the assets would not fetch a penny in the £. The auditor's information is very scanty, and being *ipso facto* a bankrupt, he is gladly relieved from office. I propose again that the Report and Accounts be rejected, and a Committee of Inspection be appointed under Section 110 of the Companies (Consolidation) Act, 1908, and that the company be wound up and the directors prosecuted under Section 215.

Mr. Hardup: I beg to state that the office of auditor of a public company is not a public office, and I am not yet relieved of my duties owing to not being discharged. The Chairman confirmed this view by stating that the position of an auditor and turf accountant was only public so far as bets were received.

Mr. Slaney proposed that the meeting be adjourned and professional auditors appointed.

The Secretary called attention to the expense that would be involved, and urged an audit by the company's officials.

A vote of thanks to the Chairman was proposed by Mr. Ward, and seconded by Mr. Holroyd, the Chairman, in reply, saying that he had done exceedingly well out of the company.

A vote of thanks to the persons responsible for the preliminaries and procedure attending the meeting was duly proposed and seconded and carried unanimously.

This concluded the meeting.

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SEPTEMBER 1920

No. 449

A Company Secretary's Duties—IV.

By W. H. Fox.

(Author of "The Company Secretary.")

The Secretary's duties in connection with dividends, debentures and the registration of mortgages are dealt with in the following article.

Dividends, Debenture Register and Transfer, Register of Mortgages, Debenture Interest.

The question of dividends would, but for the length of the previous article, have been dealt with last month, and it will be, therefore, necessary to refer to it in the present article.

Sections 95-102 of Table A provide that:—(1) Dividends can only be paid out of profits earned. (2) Directors may from time to time pay to the members such interim dividends as appear to be justified. (3) The company in general meeting may declare dividends, but the rate shall not exceed that recommended by the directors. (4) All dividends are to be declared and paid according to the amounts paid up on the shares. (5) The directors may, before recommending any dividends, set aside such sums as they think proper for reserves. (6) Any one dividend holder, holding shares jointly, may give receipts for dividends. (7) Notice of dividends payable should be given in accordance with the articles. (8) No dividends shall bear interest as against the company.

When the board decide to pay either an interim dividend on account of profits or a final dividend for the year, it will be necessary for a list of shareholders to be prepared from the register of members, with the number of shares held by each, in a separate column, and agreed with the total Capital Account in the Private Ledger.

The gross amount of the dividend will then be calculated and inserted in the fifth column, then the amount of the income-tax (assuming that the dividend is not paid duty free), and then the net amount for

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which the dividend warrant will be prepared. The columns in this list will, therefore, be as follows:—

1. Serial number.
2. Reference to folio of share register.
3. Name and address of shareholder.
4. Number of shares held.
5. Gross amount of dividend.
6. Amount of income-tax.
7. Net amount payable.
8. Remarks column.

In this last-named column are entered the names of banks to which, according to any authority given by the shareholder, the dividend should be made payable, together with any other necessary notes.

Attached to the dividend warrant is a form addressed to the shareholders showing how the income-tax is made up, and this form is detached before the dividend is paid in by the shareholder to the bank and can be utilised as a voucher in the event of a member desiring to claim repayment of income-tax.

As frequently trustees holding stocks give authority to banks to receive the dividends for the credit of the beneficiaries it will be necessary for the company to issue, in separate batches, all dividends payable at the same bank.

In such cases the actual dividend warrant will be payable to the order of the receiving banker, whilst the attached notice will be addressed to the names appearing on the register of members. The holders of the stock will have to give the necessary written notice to the company when dividends are desired to be paid to a banker direct. This form, signed by all the holders, will be handed to the "receiving" banker, who will take note of the names of the registered holders and the name of the beneficiary whose account is to be credited. The form will then be forwarded to the company.

Debentures.

The amount of debentures which a company may issue can be fixed if special articles of association are registered, but if Table A is adopted Section 73 provides that a company may not borrow or raise money on debentures beyond the amount of the issued share capital without the sanction of the company in general meeting.

The amount of authorised issue and the terms upon which debentures may be issued can also be fixed by the terms of the memorandum of association, and the following may be taken as a comprehensive section to be included in the memorandum, namely, "to borrow or raise or "secure the payment of money and for these or other purposes to "mortgage or charge the undertaking and all or any part of the property and rights of the company present or after acquired, *including* "uncalled capital, and to create, issue, make, draw, accept, and "negotiate perpetual or redeemable debentures or debenture stock, "bonds or other obligations." The Courts have held that a company cannot create a charge on its uncalled capital unless specific power is given for this purpose in the memorandum of association.

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FORM OF DIVIDEND WARRANT.

Dividend
No. 22

"MERRIE ENGLAND," LTD.

DIVIDEND NOTICE.

No. 456.

To Richard Cross, Esq., O.B.E.,
333 Park Lane, London, W.

Dividend at the rate of 17 per cent. for the year ending	£	s	d
the 31st December 1919 on 1,000 7 per cent. Preference			
and Participating "A" Shares of £1 each	170	0	0
Less Income Tax at 6s. in the £	51	0	0
	£119	0	0

NOTE.—In the event of an application being made for repayment of Income Tax, this Dividend Notice will be accepted as evidence of the amount of tax paid, as the undersigned will duly account for the same to the Inland Revenue Authorities.

A. BROWNE,
Secretary.

NOTE.—Any change of address should be notified to the Secretary.

.....

No. 456.

Dividend
No. 22

"MERRIE ENGLAND," LTD.

PREFERENCE "A" SHARES DIVIDEND
WARRANT.

Impressed
2d. Stamp

16th March 1920.

To the Securities Bank, Ltd.,
Lombard Street, London, E.C.

Pay to RICHARD CROSS.....
sum of ONE HUNDRED AND NINETE

For "M

£ CO.

.....or Order the
EN POUNDS.

Merrie England," Ltd.,

THOS. BARLOW, Director.
S. MERTON, Secretary.

£119 0 0

Payee to sign here.....

The company should advise its bankers when dividends are about to be paid, at the same time sending them a copy of the special form of Dividend Warrant.

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It must be borne in mind that the terms "debenture" and "bond" when used do not necessarily imply a mortgage or charge on the company's assets. It is necessary to use the word "mortgage" if it is the intention of the company to create a specific charge on the assets, and the debenture must in this case include some phrase to the following effect :—

"The company doth hereby charge with such payment (namely, the amount of the debenture and interest) its undertaking and assets whatsoever and wheresoever both present and future, including its uncalled capital for the time being."

It is usual to keep the actual wording of the debenture as short as possible and to specify in a separate schedule attached the conditions of the issue. These conditions, which are to be deemed part of the debenture, refer to the amount of the issue, the occasions on which the principle may become due owing to the interest being in arrear, &c., as to the drawing for payment of a certain number of the debentures every year, as to the appointment of a receiver and manager in case of default, &c.

When mortgage debentures are issued in a series one of the documents must be submitted to the Registrar of Joint Stock Companies at Somerset House, who will give the company a certificate of registration pursuant to Section 93 of the Companies Act of 1908. A copy of this certificate must be endorsed on all debentures issued in accordance therewith.

Under Section 92 of the 1908 Act, within two months of the allotment of any debentures or debenture stock or within two months after the registration of any transfer of the same, the company must complete and have ready for delivery the bond or certificate relating thereto. If default is made in complying with the requirements of this section there is a liability of £5 per day for every director and officer who is a party to the default.

Debentures may be either registered or to bearer, and in the latter case the ownership passes by delivery from hand to hand without the necessity of any transfer deed being executed. Bearer debentures require an *ad valorem* stamp of 1 per cent., whereas the registered debenture where the names of the holders appear in the register and can only be transferred by transfer deed, half a crown per cent. is payable on the deed by way of impressed stamps.

The form of debenture register may be prepared on the same lines as the share register given in the previous article, subject to the remark that the headings would be slightly altered in accordance with the fact that debentures are being dealt with instead of shares. Assuming that the principle of entering the sales effected by debenture holders in red ink, and deducting them from the total of the debentures held, the following headings (after entering the full name, address, and description of the holder) would be as follows :—

- (1) Date of entry as a debenture holder and *date of ceasing to be a debenture holder*.
- (2) Allotment or transfer deed number.
- (3) Amount of debentures acquired or *debentures transferred*.
- (4) Cash book folio.
- (5) Amounts paid on debentures acquired or *debentures transferred*.
- (6) Debenture register folio of debentures acquired or *debentures*.

A Company Secretary's Duties.

transferred. (7) Distinctive numbers inclusive of debentures acquired or *debentures transferred.* (8) Certificate number of debentures acquired or *debentures transferred.* (9) Remarks.

In the same manner the Share Transfer Register may be adopted with slight modifications for the Debenture Transfer Register, with the result that the headings would be as follows :—(I) Serial number of transfer. (2) Date of transfer. (3) *Transferor's name and address.* (4) Old debenture certificate number. (5) Transferor's folio in Debenture Register. (6) Amount of debentures transferred. (7) Transferee's folio in Register. (8) Date of entry in Debenture Register. (9) Transferee's name, address, and description. (10) Distinctive numbers of Debenture Certificates transferred. (11) New certificate number. (12) Remarks.

In the foregoing forms the descriptive matter *in italics* would be entered in red ink.

In the case of the death of a debenture holder the probate produced must be entered on a form provided for the purpose and signed by the executors, such document being kept amongst the transfer deeds.

When debentures are issued it is usual to call up the whole amount within a short period, and in any case the directors should not permit a transfer of any debentures until they have been fully paid up.

The following is a form of Debenture Scrip Certificate :—

No. 65. "MERRIE ENGLAND," LTD.

DEBENTURE SCRIP CERTIFICATE FOR £1,500.

Offices :—

333 Austin Friars, London, E.C.

ISSUE OF £500,000 10 PER CENT. REDEEMABLE DEBENTURE STOCK.

THIS IS TO CERTIFY that _____ of _____ is the registered proprietor of £1,500 of the above debenture stock, carrying interest at the rate of 10 per cent. per annum, payable quarterly on the 31st March, 30th June, 30th September, and 31st December in each year, issued subject to the provisions of a trust deed dated the 1st January 1920, made between the company and the Right Honourable David Lloyd George, of Downing Street, Whitehall, London, S.W.

Given under the Common Seal of the

Company this 1st day of April 1920.

Seal of "Merrie
England," Ltd.

A. B., *Director.*

G. H., *Secretary.*

NOTE.—The company will not transfer any of the above debenture stock without the production of a certificate relating to such stock, which certificate must be surrendered before any transfer, whether for the whole or a part thereof, can be registered or a new certificate issued in exchange.

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These Debenture Scrip Certificates should be contained in books with a counterfoil and form of receipt similar to that provided for the issue of the company's shares, as previously explained.

In addition to the foregoing Debenture Register, every limited company under Section 100 of the 1908 Act shall keep a Register of Mortgages and enter therein all mortgages and charges specifically affecting the property of the company, giving in each case a short description of the property mortgaged or charged, the amount of the mortgage or charge, and—except in the case of securities to bearer—the names of the mortgagees or persons entitled thereto. There is a fine of £50 incurred by any director or officer of the company wilfully permitting the omission of any entry required to be made under this section.

Debenture Interest. As at the beginning of this article, the question of dividends on shares has been dealt with, the same forms, with very little alteration, may be made applicable for dealing with the preparation of the debenture interest list and the payment of the same by warrant on the company's bankers with the relative income-tax certificate attached.

On the general subject of Debenture Bonds, especially in the case of Mortgage Debentures, the secretary should in no wise endeavour to adopt the form of, or settle the wording of, any such document without the careful supervision of the company's legal advisers.

Books of the Month.

DEPRECIATION RESERVES AND RESERVE FUNDS. By LAWRENCE R. DICKSEE, M.Com., F.C.A. $8\frac{1}{2} \times 5\frac{1}{2}$, xii+80 pp. 6s. n. Vol. XXVI of "The Accountants' Library Series." [The fourth edition of this useful work has been carefully revised and brought up to date.]

INCOME-TAX UP-TO-DATE. Rules and Regulations for the current income-tax year 1920-21. By H. J. GULLY, F.C.A. $8\frac{1}{2} \times 5\frac{1}{2}$, 20 pp. (Paper cover). 9d. [Includes an explanation of the Excess Profits Duty, as revised, and the new Corporation Profits Tax.]

TOLLEY'S COMPLETE INCOME TAX CHART. 5th Edition, 1920-21. With enlarged supplement containing full synopses of Excess Profits Duty and Corporation Profits Tax Statutes. Compiled by C. H. TOLLEY, A.C.I.S. 2s. 6d. n. Post free 2s. 8d. (or separately, chart 2s., post free 2s. 2d.; supplement 1s. 3d., post free 1s. 4d.). [The fifth edition of this useful chart incorporates the new Finance Act, and has been thoroughly revised to date. The supplement gives a very full synopsis of both the Excess Profits Duty and the Corporation Profits Tax, and exact references to the Acts are given throughout.]

The Money Market.—III.

Operations affected by prevailing Rates of Interest.

By J. H. McCall, F.S.A.A.

In his previous articles Mr. McCall has shown that the Bank Rate sets the standard of the price at which money can be borrowed; he now goes on to consider briefly some of the groups of borrowers who are seriously affected thereby.

(1) *The Stock Exchange.*—Before the war the Bank Rate had a direct relationship to Contango, i.e. the interest payable by a buyer for a fortnight's postponement of payment. Owing to the war, however, certain restrictions were placed upon the operations of the market in order to eliminate speculation. It was provided by the Government that all dealings should be for cash. This restriction is still supposed to be in operation, but in view of the possibility of its removal a short explanation may be advisable.

The Stock Exchange is an association of men who negotiate for other parties the buying and selling of stocks and shares according to the rules of the House. There are two classes of members: Brokers who negotiate for the public, charging them commission, and Jobbers or Dealers, who buy and sell at the market prices, acting as intermediary between the broker who buys and the broker who sells.

Assuming that a private person wished to buy 1,000 shares, he would go to a broker and place the order with him. This broker would make his bargain with the jobber. Then a contract is prepared and sent to the buyer of the shares, stating the number of shares bought, the price to be paid, the commission charged by the broker, and the date when the bargain has to be settled.

Certain days are fixed by the Committee of the Stock Exchange for settlement. The settlement in the ordinary way would occupy three days: the Carrying-over day, when it has to be decided if the bargain is to be completed or postponed; the Ticket or Name day, which is devoted to finding out who is going ultimately to take up or deliver the securities dealt in; and the Pay day, when all differences are paid by crossed cheques. As before mentioned, the buyer would enclose with his order a cheque for the payment of the shares, consequently there would be no carrying-over day, but before the war carrying-over played a very important part in the operations of the

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Stock Exchange. The speculator might buy in the hope that the value of the securities would rise, in which case he would sell and never take actual delivery of the goods. If the price did not rise before the carrying over or contango day, he could postpone the payment for the securities, but interest would be charged him for the postponement, and this is called Contango. A member of the House, to carry on his business, usually borrows from the bank at the day to day rate. Consequently, the rates charged by the banker have an immediate effect upon the contango rate, which, perhaps, in the old days was the most important of all.

Apart from the ordinary business of buying and selling for the public, certain Stock Exchange firms are concerned with the flotation of stocks, and may in this connection underwrite for a commission. This business is conducted in conjunction with the banks and is influenced very largely by the amount of money available which the banks can advance to the underwriters.

(2) *Industrial Borrowers.*—The importance of the effect of the Bank Rate upon persons who carry on their businesses largely by the aid they receive from the banks has been prominently discussed of late in the papers. There is one section who strongly advocate dear money and who would raise the Bank Rate to its highest possible point. It is hoped by this means that traders who are carrying large stocks will, in view of the heavy rate of interest payable to the Bank for borrowed money, release those stocks, and so, by bringing goods on to the market, compel prices for commodities to fall. Whether this theory is correct or not is immaterial from our standpoint, but it is sufficient to show that the Bank Rate has an enormous influence upon the industrial trade of the country.

Not only are industrial concerns compelled to borrow money to carry on their businesses, but they must from time to time come upon the market to raise the necessary capital for new businesses or extensions of old businesses. A glance at the daily papers will show that the high interest offered on debentures and preference shares has been affected by the high Bank Rate, and in addition a considerable amount of ingenuity is manifested in the prospectuses in order to show to the investing public what large prospective dividends may be anticipated.

(3) *Municipal Stocks.*—Owing to the exceptional duties thrown upon the local authorities in connection with the housing and other reconstructive expenditure, perhaps this particular class of borrowers may be worthy of being grouped by themselves.

The Money Market.

Local authorities borrow for their requirements in two or three ways: by mortgage loans obtained from banking houses, assurance companies, and the like; by short term loans obtained in small amounts from the public; or by the issue of stock upon the market. Before the war $3\frac{1}{2}$ per cent. was considered to be a good inducement as interest upon corporation stock, and 4 per cent. for a mortgage. To-day the yield of the corporation stock is about $6\frac{1}{3}$ per cent., and small authorities are offering as much as 7 per cent. for money on mortgage. This high rate of interest is due to the competitive efforts of the Government, and the disinclination of the banking houses and assurance companies to advance money at all to local authorities; and from a municipal standpoint a high Bank Rate is bad, affecting, as it does, the charges falling upon the local rates.

The issue of Treasury Bills giving a yield of $6\frac{1}{4}$ per cent. has the effect of scooping up all the available money there is in the market. Consequently, we see again not only are the Government requirements antagonistic to the industrial interests of the nation, but antagonistic also to the local authorities, who, in the matter of raising capital for housing expenditure, are merely acting as agents for the Government.

(4) *The Investing Public.*—As the result of the higher rates offered, the multitude of small investors have seen the value of their holdings in marketable securities rapidly depreciate. The majority do not read the money article in the daily paper and have an objection to dealing. The result is that if they have no new money to invest they cannot equalise the yield of their holdings, and when the time for selling arrives they feel that somehow in some indefinite way they have been done. Mention is made of this with the object of pointing out that an increasing rate of interest has the effect of depreciating the market value of the older securities which are at a lower rate of interest.

(5) *Bill Brokers.*—By far the most important effect of the Bank Rate is upon those banking and other houses who issue and discount bills, whose business is to meet the requirements of international trade, and whose operations are specifically affected by the foreign exchanges. The money required for this business is borrowed from the banks, and at times, when the sums available are not sufficient, from the Bank of England itself.

It should be remembered that a great portion of our imports are paid for by the method of accepting bills to which are attached the

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Bills of Lading. For instance, take a shipment of meat from Australia. The shipper in that country will accept a bill for the value of the cargo and receive from the banking agent, say, 80 per cent. of its value on handing over the documents of title. The goods, on arrival at London, will be released when the bill is met by the consignees. Payments for goods are sometimes made by cable transfer, a method which has the advantage of avoiding the uncertainties of a fluctuating discount rate and of saving the cost of bill stamps.

Where goods are paid for by the method of buying bills payable in any particular country, the question of discounting arises. The two factors which affect the buyer of a bill are the rate of exchange between the currency of two countries (for instance, how many dollars can be bought for £1), and the rate of interest prevailing which decides the present value of a bill due at some future date.

Bills are usually discounted through a bill broker, whose business is to buy from merchants and to re-sell to bankers. The broker carries on his business with the aid of the floating money borrowed from the banks at a rate of interest which fluctuates according to the amounts available. This borrowed money is liable to be called in at short notice, and in that event the broker may be compelled to seek assistance at the Bank of England. It is this particular fact which enables the Bank to fix a rate which really affects other rates obtaining in the market. The financing of bill brokers is a means of employing money which would otherwise remain idle in the banks, and it is in this connection that loanable money is spoken of as being obtainable or otherwise.

We have endeavoured to show how the Bank Rate affects all other rates in the market, and how the various groups of borrowers are affected ; how the fixing of the Bank Rate is in the discretion of the Governors of the Bank of England ; and how far the requirements of the Government—which the Bank, as its agent, is asked to meet—have been a deciding factor in relation to the raising of the Rate. These are the chief facts upon which it is stated that the Government financial requirements dominate the market. It must not be thought, however, that there are not other influences which may at times affect the operations on the market, and in this connection it will be well to examine the relationship of the other banks thereto.

Audit Programmes and Procedure—V.

By Andrew Binnie, F.C.A., C.A.

Mr. Binnie continues this month his enumeration of the duties of an Auditor as regards the Checking and Verification of various items.

Bank Charges.

The comparison and agreement of the Cash Book and Bank Book ensures that all bank charges appearing in the Pass Book are duly entered up and taken into account. Where accounts are made up at irregular or intermediate dates, see that a reserve is made for such charges as may be outstanding.

Telephone, Lighting, Heating, Stationery and Printing, Cables and Telegrams, Postages, &c.

These expenses having been duly vouched and checked with the books, it is only necessary to see by a reference to the invoice files that all outstanding amounts have been brought in. As to the telephone, also lighting and heating, where supplied from outside sources, a reference to the demand notes or receipts will enable any necessary apportionments or reserves for outstanding amounts to be made or checked.

Repairs and Renewals.

As already mentioned, where the rates of depreciation written off justify it, repairs and renewals are sometimes charged to Capital, but where this has been done the auditor should satisfy himself that the circumstances justify it.

Salaries.

The salaries having been duly vouched, see that proper apportionments have been made where necessary, as well as due provision for amounts accrued or accrued due. Where any of the salaries are paid under agreements, see that the payments are in accordance with the agreements as signed and sealed by the proper parties. A subdivision of salaries under Management, Accountancy, Office, and Production is usual, and is useful for the purpose of comparison from year to year.

Commissions.

A schedule should be made of those persons who are entitled to commission, and of the rate and conditions, for which purpose all commission agreements or minutes relating to commissions should be examined. The agreements may stipulate that the commission is to be calculated on net sales or on net cash received in respect of sales (thus excluding bad debts), or on profits, or on profits distributed by way of dividend. Owing to the obscure wording of many commission

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agreements the manner of computing profits for the purpose of arriving at commission is frequently rather a contentious matter. If the commission is to be calculated on profits distributed, a claim may arise in respect of reserved profits distributed in the shape of bonus shares, even though (but subject to an appeal to the House of Lords) these distributions have, for income-tax purposes, been held to be a division of capital. It is frequently left to the auditor to determine the profits upon which the commission is to be calculated. In the absence of any agreement to the contrary, the commission should be calculated on the profits before charging income-tax, but as a rule after charging excess profits duty. As the commission is chargeable to profits before computing excess profits duty, the calculations must be made accordingly. As regards companies, it is usually claimed that the writing off of preliminary expenses and of any other capital items should be added back to profits before calculating the commission. If, however, the commission be a percentage on dividends distributed (excluding dividends in the shape of bonus shares), all contentious questions are avoided.

Discounts.

See that the usual Trade Discounts on the outstanding balances of debtors and creditors are duly brought into account. Cash Discounts may be ignored until the debts are received or paid, as the case may be. Careful inquiries should be made as to any exceptional discounts allowed.

Royalties.

All Royalty Agreements should be examined and care taken that all royalties payable have been brought into account and all royalties receivable either received or accounted for and the figures duly checked and agreed by a responsible person. In the case of Mining Royalties Income Tax should be deducted when payment is made.

Bad Debts.

See that the reserves for bad debts are sufficient. (*See also June issue, page 84.*)

Depreciation.

Plant, Machinery, Engines, Furniture, and Fittings. (*See page 158, July issue.*)

Loose Tools, Drawings, Patterns, &c. (*See page 159, July issue.*)
Stock. (*See page 160, July issue.*)

Stocks and Shares. (*See page 213, August issue.*)

Leases. (*See page 215, August issue.*)

Subscriptions to Trade Societies and Charities.

These two classes of subscriptions should be kept distinct. In the case of companies see that the subscriptions are duly authorised by the board, and as regards charities, failing power in the memorandum of association to make such contributions, and authority in

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the articles to the directors to exercise the power, these contributions, strictly speaking, should be authorised or confirmed by the shareholders at the general meeting.

Law Costs and Accountants' Charges.

See that the respective bills of costs or charges have been passed by the board for payment. If any part of the costs or charges be allocated to Capital, see that the allocation is justified by the facts. See also that all costs and charges incurred are in connection with matters within the powers of the company and properly chargeable to the company, or, if not, that the outlays are authorised or confirmed by the shareholders.

Excess Profits Duty, Income Tax, and Corporation Tax.

These taxes are now a serious factor in every successful business undertaking, and as regards Excess Profits Duty may even be an important factor in a business which has paid duty but ceased to be successful. The taxes are not only abnormally heavy, but in many cases so involved and so uncertain in their incidence as to require expert consideration and calculation. A knowledge of the accounts of an undertaking from its inception, as well as of the practice and principles in matters of taxation, has become essential. It is desirable that the auditor have a complete mastery of the intricacies of taxation and so be able either to settle the liability to tax himself or satisfy himself that it has been computed in an expert way. The auditor should see that due provision has been made for such taxation as is agreed to be payable, or that a suitable foot-note is appended to the accounts where, as is often the case, it has proved impossible to arrive at the liability in time to include it in the accounts.

Income from Investments.

(See August issue, page 213.)

Trading and Profit and Loss Accounts.

If the balances have been scrutinised and tested and found satisfactory, and the Balance Sheet therefore raised on sound principles, it follows that the Trading and Profit and Loss Accounts must also be sound, since they are subsidiary to, and, in fact, only an amplification of the Profit and Loss Account balance in the Balance Sheet. The facts having been established, the auditor is only concerned at this point with the presentment of the figures and the inferences to be drawn from them. Where a business includes manufacture as well as selling, the cost of production is either set out in a separate account, from which the cost is carried into the Trading Account, or the cost of production may be shown as a distinct heading in the Trading Account. For example, a brewery undertaking would raise a Brewing Account showing the cost of the beer, a Beer Account showing the gross profit on sales, and a Profit and Loss Account, showing the net profit, including Rents Received.

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and Paid. The various items in the Production, Trading, and Profit and Loss Accounts should be classified, grouped together, and arranged in a methodical way, and the same arrangement followed from year to year so as to facilitate comparison. In a normal case the Trading Account usually includes stock at the beginning of the period, Purchases less Discount, and Wages (other than manufacturing wages chargeable to Production) on the debit side, and Sales less Discount and Stock at the end of the period on the credit side (it may be with various departmental subdivisions), the difference being the gross profit or net loss on Manufacture or Trading, as the case may be. It is advisable to work out the percentage of each item of cost to output, also the percentage of gross profit on Sales; to compare the percentages from year to year, and inquire as to any considerable divergence one year from another. The ratio of wages to output may also be worked out and compared as a matter of interest. The Profit and Loss Account may be advantageously subdivided into sections showing the profits from point to point. The percentage of various expenses and of net profits to sales should be worked out and compared from year to year, and in the case of any striking variation inquiries should be made. Many auditors prepare and keep before them a comparative summary in columnar form of the figures for five years, including the figures of the year under audit.

Patents.

Patents have a limited life, which may, however, under certain circumstances be extended by order of the Court.

The outlay on patents is not therefore an asset of a permanent character, and although the wastage may be a loss of a capital nature, as a matter of sound finance it is usually better to provide for depreciation.

Share Capital.

At the first audit the issue of the capital should be checked by reference to the Application and Allotment Sheets initialled or signed for identification by the chairman of the Board of Directors, and the minute of the board authorising the allotment should be seen. If thought necessary, the Application and Allotment Sheets may be compared with the Application Letters and counterfoils of the Allotment Letters, or with the Allotment Letters themselves if they have been surrendered in exchange for Share Certificates. The moneys received in respect of the shares should be traced to the company's Banking Account, and if there be calls in arrear the amount should appear as a deduction from the Share Capital on the face of the Balance Sheet. A list of the arrears as per the Share Ledgers should be made and the list agreed with the Ledger balance "Calls in Arrear." The attention of the directors should be drawn to the arrears, and correspondence with the shareholders who are in arrear inspected. As regards calls on shares, see the minute making the call, agree the amount received with the amount due on the shares as per the Share Register, trace the moneys received to the bank, and report as to arrears as before.

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A separate Banking Account should be opened in respect of Application and Allotment and for each call. Any subsequent issues of shares should be checked in the same way. See that the total number of shares on the register agrees with the Share Capital Account, and that the total capital issued does not exceed the authorised capital as originally fixed by the memorandum of association or subsequently increased. Each class of shares should have a separate account in the Ledger, and the balances be agreed with the aggregate of the balances appearing in the respective Share Registers. The auditor should see what conditions or rights attach to the various classes of shares, and that these conditions or rights have been duly complied with. The transfer of shares may be compared with the Transfer Register, the register called to the Share Register, the counterfoils of certificates issued examined, and the ordinary and cancelled certificates produced. This, however, is not a question of account and is rapidly becoming a matter of special arrangement, the checking being done by the auditors prior to each board meeting. In the case of forfeited shares, see that the provisions of the articles as to forfeiture have been complied with. Until re-issued, the share capital should be reduced accordingly, the amount paid up on the forfeited shares appearing as a separate item in the Balance Sheet.

Monthly Calendar.

September 16th, Thursday.—SCHOOL OF ACCOUNTANCY, 10 Essex Street, Strand. Lecture: "Efficient Administration, a Prime Essential to Britain's Economic Recovery," by Professor L. R. Dicksee, M.Com., F.C.A., 7 p.m.

September 29th, Wednesday.—LONDON CHARTERED ACCOUNTANTS STUDENTS' SOCIETY.—Discussion on Questions set at the May Examinations. Final: Opener, Mr. A. R. Sweet; Intermediate: Opener, Mr. J. W. Park, 6 p.m., at the Institute of Chartered Accountants.

The Fundamentals of Accountancy.—V.

By Lawrence R. Dicksee, M.Com., F.C.A.

(Sir Ernest Cassel Professor of Accountancy and Business Methods in the University of London).

Receipts and Payments are divided into two broad classes, Capital and Revenue, and these, with the transactions falling under each heading, form the subject of the following article.

XVIII.—Capital and Revenue.

Sooner or later all business transactions materialise into receipts or payments of money. In course of time, therefore, the genuineness of every supposed transaction can be tested by this means. But this does not at all mean that every receipt is a profit and every payment a working expense or loss. Both receipts and payments fall into two broad classes, (a) Capital, (b) Revenue. The term "Capital" is here used in an entirely different sense from that in which it is used in connection with the Capital Account (or Accounts) of a business. Capital Accounts are accounts kept by a business recording its liability to account to proprietors for capital placed by them in the business. The actual capital of the business is that which it has received from its proprietors—or, in the case of borrowed capital, from its cash creditors. In the nature of things the precise form of this capital is liable to constant variations, and the various accounts kept by the business with its agents will show the amount of capital for the time being sunk in different kinds of possessions.

Speaking generally, before any new business undertaking can be started with a reasonable prospect of success, suitable equipment—premises, furniture, plant and machinery, &c.—has to be acquired. The acquisition of such equipment sooner or later involves expenditure of money to pay for it. This expenditure does not represent a loss, but merely a re-arrangement of the assets of the undertaking in a more desirable form. The amount of equipment that can be acquired by any given undertaking depends in the main upon the amount of capital at its disposal; but if the undertaking is to be given a reasonable chance of success, the expenditure upon equipment (or Capital Expenditure as it is sometimes called) must be less than the Capital Receipts of the undertaking. There must remain a margin of unexpended capital (usually called Working Capital) to finance the business, for although in the long run the earnings of a business should be sufficient to cover its working expenses, almost invariably the payments have to precede the receipts; that is to say, goods have to be purchased and to be paid for before they can be sold and the proceeds collected, and where labour is employed, labour has to be paid before the fruits

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of that labour can be turned into money. A margin of Working Capital is accordingly required, and although this may be supplemented by the ability of the undertaking to purchase goods upon credit, a reasonable amount of Working Capital is necessary to obtain the credit itself.

Capital has been described as the fund adventured in a business at its inception ; Revenue (or earnings) as the flow from that fund. Accordingly, the essential difference between Capital Receipts and Revenue Receipts is that the former occur once and once for all, whereas the latter in the nature of things are continually recurring. In practice, however, this general statement requires some modification, in that a successful business is almost invariably a growing business, and, accordingly, one which from time to time has occasion to raise the further capital necessary to enable it to enlarge its equipment in order to cope with its expanding operations.

XIX.—Capital Receipts and Expenditure.

Under this broad heading may be grouped all those transactions connected with the equipment of an undertaking. All expenditure necessary up to the time that a new undertaking is in a position to commence operations is Capital Expenditure ; and, as already stated, if the undertaking is to be given a reasonable chance of success, the Capital Receipts must exceed Capital Expenditure by a sum sufficient to leave a reasonable margin of Working Capital. When once a new undertaking has commenced operations, only such further expenditure should be deemed to be Capital Expenditure as may reasonably be expected to lead directly to an increased production of Revenue or to increased economy in the production of Revenue. Expenditure which has neither of these effects is not Capital Expenditure. In the accounts of the undertaking, Capital Expenditure will be debited to suitable accounts indicating the nature of such expenditure, or of the equipment acquired as a result of expenditure, and the debit balances on these accounts will (subject to what is said hereafter in Section VII) appear in the Balance Sheet as assets of the undertaking.

By reason of the fact that, in the nature of things, they are liable to recur in successive Balance Sheets year after year, the assets acquired as a result of Capital Expenditure are often spoken of as Fixed Assets, inasmuch as the intention is to retain these assets in their existing form, and to continue to use them as profit-earners, and not to realise them as soon as may be in the ordinary course of business.

XX.—Revenue Receipts and Expenditure.

The Revenue Receipts of an undertaking are its earnings, the Revenue Expenses are those necessarily incurred in connection with the obtaining of the Revenue Receipts. In the nature of things, both are liable to recur as long as the business continues.

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In a cash business, Earnings would be immediately represented by receipts of money, and Revenue (or Working) Expenses by payments of money. In practice, however, the actual transaction involving a profit or a loss generally precedes the actual movement of money. Commonly, the cycle of operations is upon some such lines as the following :—

- (a) Goods are purchased, which ultimately (but not necessarily immediately) involves the payment of money. As a result, goods, i.e. stock or materials, are received. These being goods in which the undertaking actually operates, they are **not** regarded as fixed assets, but as floating assets—i.e. assets which in the ordinary course of business are continually changing their form and tending ultimately to crystallise into receipts of money.
- (b) Labour is commonly (not always) put into the goods purchased, with a view to changing their form before they are subsequently sold. This involves the payment of money almost immediately, and the immediate result is (or should be) that the value of the goods is increased by the value of the labour expended upon them.
- (c) The goods are sold, which involves merely an exchange of one asset for another. The agent responsible for the custody of the goods issues them to the customer. Accordingly, it becomes necessary to credit the custodian and to debit the customer with the selling price of the goods. It is at this stage that the profit on the sale takes place and is brought to account.
- (d) The amount due by the customer is collected. This again merely involves a re-arrangement of assets. The customer is credited with the value of the money that he pays, and the Cash Account is debited. It is not until this stage has been reached that the cycle of operations is completed.

In connection with the carrying on of every business, a number of expenses (sometimes called "establishment" or "standing" expenses, sometimes "overhead"), e.g. rent, rates, taxes, salaries, &c., have to be incurred. All these are properly chargeable against earnings, and are all of a recurring character, although not necessarily absolutely uniform. They must accordingly all be treated as Revenue Expenditure. In some cases an actual payment of money will take place the moment the expenditure is incurred; in other cases the movement of money may precede, or follow after, the date of the actual transaction. For purposes of account, the accountant aims at building up a Revenue (or Profit and Loss) Account comprising all the earnings and all the expenses relating to a specified period of time, irrespective of the precise date when each materialised into a movement of money, so that the balance of this account may show the actual result of the working of the business during a given period.

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As a question of account, this is done by collecting into one account—whether called Revenue Account or Profit and Loss Account—all those debit balances which upon examination do not appear to represent actual Capital Expenditure, and all those credit balances that do not appear to represent actual Capital Receipts. Then, to be quite sure, the Accountant looks at the matter from the other viewpoint, and satisfies himself that nothing has been credited which does not represent actual earnings of the business during the period under review (and in particular includes no outstanding liabilities) and that everything has been debited to the account that represents either directly or indirectly an expenditure or loss necessarily connected with the acquisition of the earnings. If the account shows a credit balance, it may then reasonably be regarded as the Net Profit for the period. If on the other hand the account shows a debit balance, it represents the actual Loss for the period.

The Principles of Costing—IV.

By A. Cathles, O.B.E., C.A.

"There is no doubt that the allocation of oncost is the hardest problem in Costing," says Mr. Cathles, and in the following article he deals fully with the whole vexed question, beginning with the means of ascertaining departmental Oncost and ending with a review of the methods of allocation most generally in use.

Oncost.

One of the difficulties that the student taking up the study of Costing is met with is the considerable number of terms used by different authors to indicate the same form or the same element of expense. Thus it will be found that this, the third element of cost, is variously described as "Oncost," "Overhead Expenses," "Establishment Charges," "Indirect Expenses," and "Expense Burden." Costing is part of an efficiency system, and efficiency means the elimination of waste. It is a waste of effort to use a double-barrelled term where a single short word will do, and it is therefore up to the accountant who is showing the way to practise what he preaches, and be consistent by using the shortest possible description always. The tendency in factories is that way, for it is common to find the Works' Order referred to as W.O., the Goods Received Sheet as G.R.S., and the Purchase Order and Standing Order as P.O. and S.O. respectively.

In the early days of Costing it was the rule, rather than the exception, to find that when manufacturers had ascertained the expenditure on the wages and materials entering into their products they considered that they had ascertained the cost, and so when it was brought home to them that there was still something to go on the term "Oncost" was coined.

So far, in dealing with the two elements of wages and material, only a small percentage of the items of expenditure connected with a manufacturing business has been touched upon, and there yet remains to be provided for all those other expenditures which one finds in the detailed Manufacturing, Trading, and Profit and Loss Accounts of the business. These expenditures are the oncost. As will be explained later no costing system is worthy of the name which does not finish up properly with a reconciliation of a summary of the expenditure allocated to the Cost Accounts with the expenditure shown in half-yearly or yearly accounts. Costs to be of most use to a manufacturer in the running of his business must be total costs, and as near true costs as it is humanly possible to get. In most businesses it is a comparatively simple matter to ascertain the exact cost of wages and materials (though, in some lines of manufacture, where a bye-product results which

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is not readily saleable, but is used as raw material in some other line, there does arise a difficulty in fixing the proper credit to the material cost), but in no business, except that in which there is only a single line, is it possible to arrive at the exact charge for oncost to any article that is made. Whatever method may be adopted in oncosting a job, process, or operation the result must of necessity be an estimate, but there are estimates and estimates, and it must ever be the endeavour of the cost accountant to get the best estimate possible, to get as near to fact as he can. When the question arises as to which is the best way to ascertain the true oncost loading in a factory, the answer must be governed by the consideration of what actually takes place—which most nearly reflects the facts of the case.

There is no doubt that the allocation of oncost is the hardest problem in costing, and it is the problem that is most often avoided, possibly because the manufacturer, realising that there is no exact method, concludes therefore that any method will do and adopts the easiest, the line of least resistance. How otherwise can one account for the fact that in many large businesses to-day one finds the same out-of-date methods, and often the same oncost percentages being used, as were in use years and years ago?

There is no difficulty in ascertaining the actual oncost expenditure for any given period. It comprises all the expenditure (using the word in its widest sense to cover reserves for depreciation, bad debts, &c.) of the business with the exception of that on direct wages and direct material, and excluding also such items as are in fact appropriations of profit, e.g. interest, income-tax, dividends. All the charges for oncost can be readily extracted from the General Ledger, but it is impossible to spread the amount so ascertained over the work that has been performed during the period, except perhaps in process costing, and even there the cost figures will be unduly delayed by doing so. In job costing it is quite impossible, for some jobs will probably finish every day, and it is impracticable to ascertain the oncost expenditure daily.

Cost data to be useful to the manufacturer must also be forthcoming promptly, i.e. within a reasonably short time after the work itself is completed, for it is not very helpful for the manager to know the cost of a job even one month after it is finished if in the interim he has started on repeat orders at a price which the cost now shows him to be unremunerative. Nor is it much use for the foreman to take his men to task about the time or material they wasted on a job they were working on four weeks before. No difficulty should be experienced in a works' office in getting out the wage and material cost within a week of the finish of a job or of the close of a period, and the method of oncosting should be so devised that the total cost is then available right away.

Departmental Oncost.

The oncost expenditure of any one shop or department in a factory is never the same as the expenditure of any other. During one period the total expenditure of one might by chance be equal to that of another, but the details are bound to vary. It is therefore clearly

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indicated that the first step towards charging a proper share of oncost to a job is to see that the department in which it is undertaken has received its proper charge. For this purpose it is necessary to create Departmental Oncost Accounts and just how the factory is to be departmentalised must be decided upon the facts of each individual business. In one factory the whole of the operations on a standard product might be performed in one building in which case that building would become a department. Or two or more buildings might be used solely for the production of one class of article which would pass through all of them, and in that case the whole might be considered as one department.

General Service Departments.

Then besides the departments that are directly engaged upon production there are the other departments, such as the power plant, the staff engaged upon repair work, garage and stables, stores, &c., the expense of which is in itself an oncost charge, they all have to have their departmental Oncost Accounts. In fact, in connection with these latter (they are called "general service departments") it is really a matter of oncosting oncost. The necessity for this arises from the fact that the cost of these departments has to be spread over the production of the factory, and unless it is the total cost that is so spread some of the productive departments will receive too much of it and others too little, for the allocation has to be made in varying proportions to the different productive departments. In the case of the stores, for instance, if one takes only the amount of the wages paid to the storekeepers and allocates that to the departments in the proportions of the weights of material issued to them, and leaves out of account the indirect stores expenditure on lighting and heating, depreciation, repairs, &c., spreading the whole factory expense in these items on, say, the arbitrary basis of wages in the productive departments, it will be appreciated that the result will be, as has been said, to overload some departments and let others off too lightly. The whole of the expense of any general service department must be spread on a uniform basis. Again, it is only by closely watching the cost of running these general service departments that they can be properly controlled.

There will already appear at the debit of the various general service accounts in the General Ledger the amounts that have been charged up to their respective Standing Order numbers for wages and materials, and these will form the first debits to their departmental Oncost Accounts.

Machinery Charges.

Then in all factories where machinery is used to an appreciable extent certain expenditure is incurred, which is due solely to the machinery, and it is essential that care be taken to ensure that such expenditure is charged in the Cost Accounts only to jobs upon which the machinery is used. Such expenditure may be said to consist of:—

- (1) Rent and rates applicable to the space occupied by the machines and to sufficient space around the machines to permit of their being worked.

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- (2) Power consumed by the machines.
- (3) Repairs to and maintenance of the machines and the belting, pulleys, and shafting necessary for their running.
- (4) Depreciation of the machines, belting, pulleys, and shafting.

These charges must therefore be segregated in Machine Rate Accounts, one account for each machine or for each group of similar machines, for it will be appreciated that the cost of different types of machines in these items will vary.

General Oncost.

There is then left only the general oncost expenditure, which must be spread over all the departmental Oncost Accounts in the proportions that will most nearly reflect the facts. Depreciation of buildings, for instance, if a flat rate of depreciation is applied to all buildings, will be allocated over the departments in proportion to the capital value of the buildings in each department. National and workmen's compensation insurance might be spread on the basis of the wages expenditure, and fire insurance in accordance with the risk. And so on, each item of expense being taken separately and allocated on its truest basis. When this distribution has been made, new oncost figures will have been obtained for the general service departments, and any proportions of them that are applicable to the machines or to capital expenditure will be allocated accordingly, the balance being spread over the productive departments in proportion to the known consumption of the services by same, e.g. Stores Departmental Oncost will be allocated, say, on the weight of material issued, and heating and lighting either as metered to the departments or in accordance with the engineer's certificate.

The reshuffle has left oncost split in two main divisions in the Departmental Oncost Accounts and in the Machine Rate Accounts.

Man-hour Rates.

The departmental oncosts are now ready for allocation to the jobs that have been performed in the respective departments, and it is necessary once more to decide upon the truest basis for this purpose. It may be safely said that the best basis is in proportion to the number of man-hours that have been worked, and by dividing each departmental oncost total by the hours worked in the department a man-hour rate is obtained. The analysis of the men's time sheets will have provided not only the total hours worked in each department but also the total worked on each job in each department, and, therefore, the oncost charge for any Work's Order is easily determined.

Machine-hour Rates.

The only reasonable basis upon which the machinery charges can be allocated is in proportion to the number of hours each machine has run upon each Work's Order. Here again the analysis of the men's Time Sheets will come in useful, for it will be remembered that these

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sheets specify the machines used and the hours they are run on each job. The total expenditure for the period on each machine or each group of similar machines has been ascertained, and it only remains to divide same by the number of hours run in order to obtain the machine-hour rate which, multiplied by the number of hours the machine has run on a job, will give the machine charge to that job.

That is the ideal method of charging oncost to jobs, but it is impracticable, because the man-hour and machine-hour rates could be practicably obtained only, say, once a month, and it would be probably three weeks after the end of the month before the figures were available, so that the final cost of a job which finished during the first week of a month would not be available for six weeks, and that would be just about five weeks too late.

Oncost Budget.

How, then, can this ideal method be adapted so that the getting out of the oncost charges to the jobs will not delay the costs? It can be made practicable by the use of past experience of the oncost expense of the business. At the beginning of each fiscal year the Chancellor of the Exchequer prepares his Budget—that is to say he looks back on the year that is gone and compares the expenditure therein with what he considers he will have to meet during the coming year. He knows what the various taxes have produced by way of revenue, and he increases or adjusts those taxes so that they may produce what is required during the next twelve months. The oncost expenditure of a business is capable of very similar treatment. At the beginning of the year the expense items should be listed in detail and the amounts filled in after due consideration of the past year's experience and the coming year's prospects. Each item should then be given the treatment that has been described above, that is it should be divided among the Departmental Oncost Accounts, the Machine Rate Accounts, and General Oncost, and so on until the whole expense finally rests in Departmental Oncost and Machine Rate Accounts. The next step is to obtain the number of hours by which these amounts must be divided in order to arrive at the departmental man-hour rates and the machine-hour rates. Again, it is a question of budgetting in the same way as has been done with the expenditure, namely, by reviewing the past year's experience and adjusting the results to meet known altered circumstances and anticipated changes in conditions.

The Oncost Budget has this advantage over the budget of the Chancellor of the Exchequer, that its provisions can be reviewed and adjustments made as often during the year as circumstances may require. In fact, it must essentially be always under review, but the rates should not be adjusted without due consideration of all the factors. It should be the aim in a business to have oncost rates that do not need adjustment, but this is rarely attainable. It must be remembered, however, that certain expenditures fluctuate with the season of the year, such as lighting and heating, cost of raising steam, &c., and this must be borne in mind when adjustments seem to be called for.

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Oncost Control.

Considerable trouble will be experienced in ascertaining the first year's man-hour and machine-hour rates—in fact, in new businesses or in factories where statistics of hours worked by men and machines are not available, the first rates may have to be fixed purely on estimates. If, however, proper records are thereafter kept the fixing of succeeding rates will prove a comparatively simple matter, for the statistics will then be available to show what adjustments on existing rates are necessary. The control on oncost may be conveniently maintained by the preparation monthly of statements showing the estimated expenditure for the period in comparison with the actual expenditure and with the amounts that have been recovered by means of charge to Works' Orders, i.e. to production. Provided that the numbers of hours (man and machine) in the work in progress do not fluctuate violently at the end of one month as compared with another month, the oncost on the incomplete Works' Orders may be ignored for the purposes of this control. If, however, there is material fluctuation, the oncost on work in progress will have to be taken into account. In order that the true cost of work in progress may be ascertained it will have to be oncosted at the times that the half-yearly or yearly accounts are prepared.

Other Methods of Allocation.

Greater controversy has raged around the allocation of oncost than around any other part of costing, and some writers have not hesitated to condemn in no uncertain language the methods advocated by others. One has even referred to another's method as belonging to the "Silurian epoch of shop accounting" and as being "the ichthyosaurus of expense systems." These terms were applied to a system whereby the whole of the departmental oncosts were allocated over the jobs done in the respective departments on the basis of the hours run by the machines therein. Such a system would be applicable where the whole of the work was done on the machines and none at all by hand. Where handwork is done it would, of course, not be suitable, for there would then be no means of charging such work with oncost at all.

The most common method, and at the same time one of the most inaccurate, is to allocate on the basis of the productive wages earned on the jobs. Often one will find that this is done without any departmentalisation, the whole of the factory being treated as one department as it were. If all the work in a shop is handwork (and that is rarely found nowadays) this method of allocating departmental oncost is not so inaccurate as where handwork and machine work are mixed. In this latter case, however, the result would be disastrous to any costing system, for the handwork would thereby be made to bear a proportion of the admittedly heavy charges attributable to machinery which was not used in its performance.

Another method, and one which is not very much better than the wage basis method, is to distribute the oncost on the basis of the number

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of hours worked by the men on each job. This method is open to the same objection as the last mentioned in that it leaves out of account also any special consideration of the heavy machinery charges. Where, however, there is no machine work, it is a more accurate basis to employ than the wages basis, as it does not entail the penalising of the work that is done by the skilled, and, therefore, more highly paid workers.

The fourth method involves the apportionment on the basis of prime cost—i.e. wages plus material. It would surely be the height of folly to allocate oncost in proportion to the value of materials used in the various jobs, for it is ridiculous to suggest that the cost of driving the machinery, of depreciating the buildings, or of heating, lighting, and cleaning the premises, fluctuated according to whether a precious or a base metal (to use one illustration) was being worked upon. Similarly, the folly would be only slightly less to use a method which combined one inaccurate basis with another also inaccurate. Two wrongs do not make a right in costing any more than in anything else.

More money can be saved in most businesses by an efficient control on oncost expenditure than by control of wages and materials together, and control can be obtained only by proper departmentalisation of the expenditure and by comparison of same with the amount which experience has taught ought to be expended. On the accuracy of the allocation of this element of expense depends largely the trueness of the costs that are obtained.

EDITORIAL.

Stock Exchange Transactions.

We think that to many of our readers the methods of procedure in relation to Stock Exchange transactions, between client and broker, and broker and jobber respectively, are somewhat obscure, and we hope, therefore, that this article may prove useful in throwing some light on the matter.

Before discussing the *modus operandi* in detail, it is interesting to note that the Stock Exchange came into existence about the year 1773, although business relating to Stocks and Shares was previously carried on in the Rotunda of the Bank of England, which was specially appropriated for the purpose. Business was also transacted in a house in Threadneedle Street, called the Stock Exchange Coffee House, to which any person was admitted upon payment of 6d., and a Committee for General Purposes was in existence to administer the rules of business, settle disputed bargains, and adjust the liquidation of defaulters' accounts. In the year 1801, however, a number of gentlemen acquired a site in Capel Court, Threadneedle Street, and raised a capital of £20,000 in 400 shares of £50 each, in order to erect a building that would adequately fulfil the needs of increasing business. The members were elected by ballot at an annual subscription of ten guineas each, and the new Exchange was opened in March 1802, with roughly 500 members. The Stock Exchange administration is vested in two distinct bodies, viz. (a) the Managers, i.e. the *proprietors* or *shareholders*, and (b) the Committee for General Purposes. The shareholders elect nine of their number to represent them as Managers, who have control of subscriptions, fix the annual charge for admission, and superintend all matters relating to the building, but they have no control over the business transacted in the Exchange. The Committee, 30 in number, on the other hand, consists of members of the Stock Exchange, who control the business of the House, and make the rules and conditions under which it is carried on.

Only members and "admitted" or "authorised" clerks have the right to enter the House, the former paying a fee of 500 guineas, unless having previously served as clerks, when the fee is reduced; an annual subscription is also payable.

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Members are divided into two classes, viz. *Dealers* or *Jobbers*, as they are usually called, and *Brokers*, and whilst there is no formal distinction between them they are not permitted to act in a dual capacity, neither may brokers and jobbers be in partnership together. The jobbers usually take up some definite position or stand in the House, and as they usually confine their dealings to a particular class of security, a number of separate markets are practically created, and definitely allocated, so that when a Broker desires to deal for a client he knows exactly where to find the man who buys and sells the particular class of security.

Brokers, however, make their offices their place of business, and are, in effect, the link between the outside public and the Jobbers or dealers. It should be observed that members of the Stock Exchange are not allowed to advertise, so that advertisements appearing in financial papers as to purchase or sale of securities emanate from people who are not members, but are called *outside* brokers.

Next let us see exactly how a transaction takes place. A would-be purchaser instructs his broker to buy certain shares, the broker enters the House, and finds a jobber who deals in the particular shares, and asks him "*to make a price in the shares,*" not stating whether he is a buyer or a seller. The jobber thereupon mentions two prices, one at which he will buy, and the other at which he will sell, the difference between the two being called "*the turn of the market,*" which enables the jobber to secure in the long run the profit for which he works, although market fluctuations may deprive him of it in any individual transaction. The jobber is not *bound* to make a price, but having made it, he is bound to do business if the broker states either that he buys or sells, but *only within certain limits* fixed by the rules of the Stock Exchange.

A broker is not bound to disclose the full amount of the stock in which he desires to deal, although he *must*, as it were, show his hand, by saying whether he is a buyer or a seller, and the broker can buy part of his shares from another jobber if he wishes. This method applies to all securities having current quotations, but where shares are not commonly dealt in, all dealings are, more or less, by negotiation.

Upon a purchase or sale being concluded between broker and jobber either party to the bargain may "*mark the price,*" which is

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effected by a member placing in a box in the House a slip containing details of the transaction, and the official clerk then marks the price upon the board, which is an official record of business done.

The broker then enters the "*bargain*" in his own books, sends a contract note, giving price, commission charged, transfer fees, and contract stamps to his customer, and also stating when the same must be paid for. Since the war, the basis of business is cash, whilst before the war settlements usually took place every 14 days. The following day the respective clerks of broker and jobber meet in the "*checking*" room and check the bargain as shown by their books.

Before the war it was possible to postpone settlement of a bargain from one account to another, which was called "*continuation*," or "*carrying over*" and for this privilege a rate of interest was charged called "*contango*," if on the other hand a person who had sold stock desired to postpone delivery of the same, this was termed "*backwardation*."

The "*carry over*" day, which was the first day of the fortnightly settlement, was called "*making-up*" day, and the prices at which the stock was made up were fixed on that day. The second day was called "*name*" day or "*ticket*" day, because on that day it was necessary for the brokers to furnish the names of the purchaser or seller of the stock on a ticket to the broker, who ultimately delivered the stock.

Then the third and last day was known as "*settlement*" day (also called Account day), as it was necessary to either pay for the stock purchased or to settle differences where stock had been carried over, or not delivered.

This article will be continued and concluded in our next issue.

Notes.

A Novel Claim by Preference Shareholders.

An interesting case was decided in the House of Lords recently with regard to a claim for a rebate in respect of Colonial Income Tax. The Scottish Union and National Insurance Company, who held £10,000 preference stock in the New Zealand and Australian Land Co., Ltd., claimed that the preference stockholders and not the company as a whole were entitled to the benefit of a rebate which was allowed to the Land Co. by the Inland Revenue, who had satisfied the Commissioners that Colonial Income Tax had been paid at the rate of at least 1s. 6d. in the £ in respect of income earned in New Zealand.

The House of Lords, however, held that the Colonial Income Tax stood exactly on the same footing with any expenses necessarily incurred in the business of the company in the Colonies. The company had paid the Colonial taxes *and* the United Kingdom tax, and, therefore, the company was the only person entitled to claim and receive repayment from the Commissioners. They therefore dismissed the claim of the preference shareholders.

Value of Studies.

The Home Secretary, speaking recently at the presentation of prizes to successful students in the London Chamber of Commerce examinations, laid great stress on the value of study. He said that we had arrived at a time, not only in our national history but in the history of the world, when *specialisation* had become essential, and he pointed out that there were great openings for anyone who was a specialist in any form of industry and commerce, and it was upon this specialisation that our future as an empire would largely depend. It was necessary for us to capture foreign trade, and to do this we must study not only the languages of other countries but also the history and antecedents of those countries. We draw particular attention to this speech, as it bears so closely upon our remarks last month in relation to the new degrees in Commerce that are now open to those desiring to specialise in any particular branch of commerce.

American Exchange.

Professor Cannan has stated that the relative value of the pound sterling and the American dollar is determined by their respective purchasing powers, but a correspondent in one of our contemporaries points out what appears to be a fallacy in this statement.

If true, the pound sterling must have depreciated about 10 per cent. in the last few days, whereas during the previous six months the exchange rose from \$3.20 to \$3.94, that is, about 24 per cent. So that the pound also increased in value to a like extent.

Notes.

Apparently, however, the purchasing power was *reduced* in that period if judged by the cost of commodities in general, which certainly appears in conflict with the professor's argument.

It is generally accepted that the recent fall in the American exchange is owing to the fact that there are more sellers than buyers of sterling cheques on London, which in its turn is influenced by the balance of trade between ourselves and America.

Bank Rate.

It is often argued that a high bank rate or *dear* money acts as a cure for inflation of prices and a check upon credit business. There is no doubt that an increase in the bank rate tends to stop speculation on the part of borrowers, but it has not apparently done much to reduce the price of commodities generally—as we know to our cost.

Subjects for Competitions.

The subjects for Competitions for September are :—

Intermediate.—The best description of a good system of Branch Accounts—(a) English, (b) Foreign.

Final.—The best essay on “Advice to an Intermediate Student.”

Income Tax Practice—V.

The basis of the Excess Profits Duty—the pre-war standard of profits—is considered in the following article, the fifth of the series on Income-tax Practice, specially written for "The Accountants' Journal" by the Income-tax Expert of "The Accountant."

Excess Profits Duty.

Before proceeding further with income-tax it will be well to look at the main principles of the Excess Profits Duty, which Duty is the heaviest impost ever levied on profits.

The basis of the Duty is an appropriation by the State of a percentage of the excess of the war profits over the pre-war standard of profits, and the period for which the accounts are prepared is broadly the period for which an assessment is made.

Pre-War Standard.

The pre-war standard is either :—

- (a) the average profits of any two of the three trading years next before 4th August 1914; or
- (b) a percentage on the capital of the business at the end of the last pre-war trading year; or
- (c) the average profits of any four of the six last pre-war years, when the average profits of the three last pre-war trading years were at least 25 per cent. less than the average profits of the first three of the six pre-war years.

Assume that the trading year ends at 31st December and that accounts are made up annually and that the pre-war profits were :—

Year ended 31st December, 1911	..	£ 2,800
" " " " 1912	..	3,600
" " " " 1913	..	1,200

The pre-war standard under (a) would then be:—

Year ended 31st December, 1911	..	£ 2,800
" " " " 1912	..	3,600
		<hr/> 26,400
		<hr/> £3,200

If the capital of the above business at 31st December 1913 (as adjusted on the principles shown later) was £80,000, and the business was carried on by a limited company, the pre-war standard would

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be £80,000 at 6 per cent. = £4,800. The percentages for capital standards are :—

- (a) For accounting periods (i.e. periods for which accounts have been made up) ending before 1st January 1917 :—

Limited Companies, 6 per cent.

Other Businesses, 7 per cent.

- (b) For accounting periods ending after (a) the 7 per cent. becomes 8 per cent.

As regards (c) the following example shows the effect :—

Profits—Year to 30th September, 1908	..	£	8,400
" " " " 1909	..	10,900	
" " " " 1910	..	3,800	
" " " " 1911	..	5,600	
" " " " 1912	..	1,400	
" " " " 1913	..	4,200	

The ordinary standard (a) would be :—

1911	..	£	5,600
1913	..	4,200	
		2)9,800	
		<u>£4,900</u>	

The substituted standard would depend upon the existence of the 25 per cent. difference between (c) and (d).

(c)	(d)
£	£
5,600	8,400
1,400	10,900
4,200	3,800
<u>3)11,200</u>	<u>2)23,100</u>
<u>£3,733</u>	<u>£11,550</u>

The difference thus exceeds the 25 per cent., so that the substituted standard would be :—

1908	..	£	8,400
1909	..	10,900	
1911	..	5,600	
1913	..	4,200	
		4)29,100	
		<u>£7,275</u>	

This substituted standard requires, legally, an abnormal depression in trade, but in practice this restriction is ignored so long as the figures give the 25 per cent. reduction.

An addition is made to the standard of £200, and this £200 is increased as follows :—

(a) For accounting periods ending after 31st December 1916 and before 1st January 1920, where the profits do not exceed £2,000, an allowance is made of one-fifth of the excess £2,000 over the profits, less the excess of the pre-war standard over £500. The following

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example shows this allowance, the profits being assumed as £1,200 and the pre-war standard as £560. The extra allowance would be:—

	£	
	2,000	
Less profits	1,200	
	5800	
	160	
Less excess of standard over £500 ..	60	
	£100	

The assessment would thus be:—

	£	£
Profits	560	1,200
Less P.W.S. ..	200	
Allowance ..	100	860
Extra " ..	40%	340
	£136	

For accounting periods ending after 31st December 1919 the allowance becomes one-fifth of the excess of £4,000 over the profits, less the excess of the pre-war standard over £2,000.

Rates of Duty.

The rates of the Excess Profits Duty are as follow:—

50%	—1st 12 months of Accounting Periods	
60%	—Accounting Periods up to 31st Dec.,	1916
80%	— " " " "	1918
40%	— " " " "	1919
60%	— " " " "	1920

If an accounting period does not end on 31st December it is split for the rate.

Deficiencies.

Although the assessment is on the accounting period, the whole period during which the Duty exists is taken as one period, so that if one period shows a deficiency below the pre-war standard and allowances, Duty on that deficiency, calculated at the rate in force during the accounting period in which the deficiency arises, is repayable against Duty paid on other accounting periods. Assume that the profits of the year to 30th September 1920 are £800 and the pre-war standard £1,500.

Allowance is one-fifth (£4,000 — £800) = £640. The deficiency is :

	£	£
	800	
Profits	1,500	
Less P.W.S. ..	200	
Allowance ..	640	
Extra " ..	2,340	
	55%	1,540
	£847	

A repayment of £847 is then made against Duty previously paid. The rate of 55 per cent. is:—

$$\frac{1}{4} \text{ of } 40\% + \frac{3}{4} \text{ of } 60\% = 55\%$$

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Increased Capital.

The Excess Profits Duty not only proceeds on a basis of comparison of profits but also of capital, and a deduction is made from the profits when the capital at the commencement of the accounting period exceeds the average capital of the pre-war years selected for the pre-war standard. The allowance is at the following rates on the increased capital :—

Companies—

Accounting Periods, ending before 1st January, 1917	..	6%
" " " " " " " " 1920	..	9%
" " " " " " " " 1921	..	11%

Other Concerns—

" " " " " " " " 1917	..	7%
" " " " " " " " 1920	..	11%
" " " " " " " " 1921	..	13%

Assume that the pre-war profits standard of a partnership was based on the years to 31st December 1911 and 1913, and that the adjusted capitals were :—

At 31st December, 1910	..	..	..	£	18,500
" " 1911	..	..	..		24,000
" " 1912	..	..	..		32,000
" " 1913	..	..	..		40,000
" " 1919	..	..	..		65,000

The pre-war average capital would be :—

At 31st December, 1910	..	..	..	£	18,500
" " 1912	..	..	..		32,000
					<hr/>
					2)50,500
					<hr/>
					£25,250

For the year to 31st December 1920 the capital would be £65,000, giving an increase of £39,750, which at 13 per cent. would give £5,167 allowance.

Decreased Capital.

When the capital has decreased an *addition* is made to the profits but only at the rates of—

Companies..	..	6%
Other Concerns	..	7%

Income Tax Notes and Comments.

In this column Income-tax recent alterations of law and practice are discussed and explained and readers' queries are answered. Arrangements have been made to reply to these queries by post, the replies being published subsequently in the "Journal" under noms de plume. A stamped addressed envelope should be enclosed with the queries and the service is limited to subscribers to the "Journal."

Manager's Remuneration.

Section 49 (2) of the 1916 Act allows a trader to recover from a manager, director, &c., any Excess Profits Duty paid by the trader on increased remuneration disallowed in arriving at the trader's liability, but the section does not provide that the recovery *must* be made. When, however, the recovery is effected the Excess Profits Duty recovered is treated, for income-tax purposes, as paid by the manager not by the trader, but this does not apply if the trader waives his right of recovery. Assume that a manager's remuneration was £1,000 per annum in 1913 and that this was increased to £1,800 for the year 1919. The company's pre-war standard is taken to be £10,000 and the 1919 profits £30,000 after charging the remuneration of £1,800. The liability would be :—

Profits	£	30,000
Add Excess remuneration	800	
	30,800	
Less Pre War Standard	10,000	
	20,800	
	40% 20,800	
	£8,320	

The company would then recover from the manager the Duty on the £800, i.e. £320. The manager would then be assessed on £1,800 — £320 under Schedule E for 1919-20. The company would deduct from its 1919 income-tax profits £8,320 — £320 = £8,000, and this allowance would be effective in three averages as follows, assuming the profits, *before* charging Excess Profits Duty, to be :—

Year to 31st December, 1917	£	24,000
" " " 1918	26,000	
" " " 1919	30,000	

and the Excess Profits Duty borne in 1917 and 1918 to be £11,000 and £12,500 respectively :—

1920/21			£	£	£			
1917	24,000	—	11,000	=	13,000			
1918	26,000	—	12,500	=	13,500			
1919	30,000	—	8,000	=	22,000			
					348,500			
					£16,166			
1921/2					£			
1918					13,500			
1919					22,000			
1920	say £35,000	—	£15,000	=	20,000			
					355,500			
					£18,500			

Income Tax Notes and Comments.

1922/23						£
1919	..	..	..	..	..	22,000
1920	..	..	..	..	..	20,000
1921	..	say	£38,000	-	£16,000	= 22,000
						<hr/> 3)64,000
						<hr/> £21,333

The Duty borne for 1919 is thus allowed in the averages of the above years. A *repayment* of Excess Profits Duty owing to a deficiency is treated differently, as it is made a profit of the year in which the repayment is made; thus, if 1919 had given a deficiency and the Duty on that deficiency was repaid in 1920, that Duty would be added to the 1920 profits and thus be charged in the averages for 1921-22, 1922-23, and 1923-24.

Food Control.

A correspondent, "Perplexed," states that an association was formed, on the recommendation of the local Food Control Committee, for the purchase and distribution of meat under the Rationing Order. Each member paid a deposit into the association to cover approximately one week's supply. The association has now ceased to exist, and the profit made by the association during the 2½ years will be distributed amongst the members per ratio to the amount of meat purchased. It is asked if the profits are liable under Schedule D.

The profits are liable under Schedule D on the members, as the position is that the members have purchased collectively and have paid too much for the meat. The elimination of the profits would give the actual cost, and the credits of the sums distributed—allocated to the years affected—would give the same result as by amending the debits for purchases. The sums distributed are clearly part of the trading profits of the member.

Schedule A.

A company purchased a portion of the business premises two years ago and, prior to the purchase, the rent was charged for Excess Profits Duty. It is claimed by "H. P." that the net Schedule A should now be allowed for Excess Profits Duty.

The Schedule A cannot be allowed, but the premises form increased capital, giving an allowance which should exceed the net Schedule A.

War Loan Interest.

(1) A man holds £10,000 5 per cent. War Bonds, and interest of £500 was paid in the year to 5th April 1919 without deduction. The holder died on 5th January 1920 and "Interested" inquires as to the basis of assessment.

The 1919-20 assessment is properly made on the income of the year to 5th April 1919, but it should be reduced to three-fourths, i.e. the proportion to date of death. *Brown v. National Provident* laid down that assessment cannot continue after the source has ceased to be held. If the bonds were not realised before 6th April 1920 the full assessment would be correct, as the executors would be liable on the one-fourth. There will only be liability for 1920-21 if the bonds are

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held by the executors in 1920-21, and then only on the proportion of the year during which they are held.

(2) A. receives £500 interest on £10,000 War Bonds in the year 1919-20 and sells the bonds on 5th April 1920 and invests the proceeds in property.

There will be no liability in 1920-21 on the interest (*Brown v. National Provident*), but on the property under Schedule A.

Reopening of Assessments.

(1) A firm's Schedule D assessments have been agreed with the Revenue for several years, but it now transpires that several concessions could have been claimed. "D. H." asks if the assessments can be reopened.

Legally, there is no claim to a reopening, but if the concessions referred to are obviously allowable items that have been missed, a claim should be made for the three preceding years. The Revenue has recognised a reopening when the item was an obviously allowable one.

(2) A tenant pays a rent of £25 and is entitled to deduct tax at 6s., which equals £7 10s., whereas the March quarter's rent is only £6 5s. and it is asked how the tax of £1 5s. can be recovered in view of the decision, referred to on page 175 of the *Journal*, that tax can only be recovered from the next payment of rent made after payment of the tax.

In the first place, the Schedule A tax is charged in two instalments—January and July—so that the deduction can obviously be made. Even if it were charged in one sum the £1 5s. could be deducted from the June rent, as that would be the next *payment* of rent.

Demobilised Soldiers.

(1) A correspondent, "Studio," asks if a demobilised soldier who started a new business can claim to be assessed on a three years' average of his first year's profits and his two years' army pay.

The assessment cannot be made on the three years' average. The concession only applies to employments.

(2) It is also asked to what extent a surveyor, auctioneer, and estate agent is liable to Excess Profits Duty.

The liability is on the commissions less the proportion of the expenses.

Travelling Expenses.

A man living at Aberystwyth lodges at Treherbert and is employed at a distance of seven or eight miles from the latter place. It is asked by "Doubtful" if any allowance can be claimed for the cost of living away from home and for travelling expenses to and from wage.

If the man is a manual wage earner the allowances can be claimed in practice, but not otherwise.

Life Assurance.

(a) A correspondent, "J. W.," asks if allowance can be made against a firm's profits for life assurance premiums paid on a joint life assurance, and (b) if repayment on account of interest from a Building Society can be claimed.

Income Tax Notes and Comments.

The law only allows a deduction for a premium paid on the life of the person claiming the allowance, so that legally no allowance can be claimed, as the individual pays the premium on the life of his partner. If the policy provides for a payment to both on the death of one or both it is an assurance on the life of each and the portion of the premium is then paid by each on the life of himself. If the policy is surrendered and single policies taken up the difficulty will disappear.

(b) No allowance can be claimed. The arrangement B under which the society pays tax is a compromise by which the assessment is made on *half* of the dividends, &c., at 3s., on the assumption that the other half covers exempt shareholders. The rate of 3s. is the lowest unearned rate. This basis is extremely favourable to the society, and the Revenue makes a condition that no repayment shall be allowable even though the shareholder is absolutely exempt.

The New Finance Act

The new Finance Act makes several important amendments, which are enumerated below :—

Income Tax.

Allowances.

The allowances are now as follows in substitution for the abatements, rates in the £, and personal allowances existing for 1919-20 :—

(1) £225 for a married man.

£135 for an unmarried man.

(2) The earned income is reduced by 10 per cent. up to a maximum reduction of £200, in place of the prior difference between the earned and unearned rates.

(3) The first £225 of the taxable income (i.e. after deducting allowances except life insurance premiums) is charged at 3s. in the £ and the balance at 6s.

(4) Maintenance of a female relative by a widower for the purpose of caring for his child—£45.

(5) Maintenance of a widowed mother or female relative for the purpose of caring for a brother or sister under sixteen—£45.

(6) Children under 16 or over that age, if at school full time—£36 for first and £27 for subsequent children. If the child has an annual income of £40 in his own right (exclusive of scholarship income) the allowance does not apply.

(7) Dependent relatives—£25. This allowance is to be divided between two or more persons who support the same person.

Residence Abroad.

No allowances or relief are to be given to a person not resident in the United Kingdom except in the following cases :—

(1) British subjects.

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(2) Crown servant or missionary or servant of a native state under British protection.

(3) Resident in Isle of Man or Channel Islands.

(4) A previous resident in the United Kingdom who is now resident abroad on account of ill-health of himself or of any member of his family.

(5) Widow of late servant of the Crown.

In these excepted cases, the tax on the total income, including that not taxable in England, has to be calculated, and the proportion of this that the English income bears to the total income is the amount of the charge.

Life Assurance Premiums.

The limits of the previous Acts are retained, but the allowance is to be made at the following rates:—

(a) One-half rate when income does not exceed £1,000.

(b) Three-fourths rate when income exceeds £1,000 but does not exceed £2,000.

(c) Full rate when income exceeds £2,000.

Colonial Income Tax.

Where colonial income-tax has been borne on income assessable in England an allowance is made for the full colonial rate of tax when that rate does not exceed half of the English income-tax and super-tax rates actually borne. Where the colonial rate exceeds the half, the allowance is restricted to the half.

Excess Profits Duty.

The rate is 60 per cent. for all parts of accounting periods after 31st December 1919.

Pre-War Standard.

An increased pre-war standard is allowed by substituting the capital percentage standard plus £500 for each working proprietor, but subject to a maximum of £750 for each such proprietor. The addition to the £200 allowance when the profits do not exceed £2,000 is not then made.

The above also applies to private limited companies, and "working proprietor" is defined as meaning a proprietor (including a director of a private company who owns not less than 20 per cent. of the share capital) who, during at least half of the accounting period, has worked full time in the management of the business.

Where a business is being carried on by a widow whose husband had war service and, prior to joining the forces, was working full time in the management of the business, the substituted standard applies.

Where the directors of a company have a controlling interest the statutory percentage of an *individual* attaches.

Income Tax Notes and Comments.

Capital.

The percentage for increased capital is increased by two.

The addition to the £200 allowance when the profits do not exceed £2,000 is increased by becoming one-fifth of (£4,000—the profits) — excess of standard over £2,000.

Charitable Subscriptions.

Allowance is permitted for contributions, made after 16th July 1920, to any trust, &c., for relief of the poor or sick, advancement of religion, education, or scientific research. The deduction shall not exceed 5 per cent. of the profits and 20 per cent. of the contributions.

Corporation Profits Tax.

This tax, which applies to British companies and to other companies in respect of English profits, is 5 per cent., but the first £500 is not taxed.

The profits are based on income-tax principles and the tax is not to exceed 10 per cent. of the profits after deducting debenture interest, preference dividends where fixed and permanent loan interest. Income from investments is liable.

The deduction for remuneration of a director or manager who has a controlling interest shall not exceed £1,000 per annum.

Co-operative societies are liable in respect of surplus arising from transactions with members, and any sums paid by way of bonus, discount, or dividend on purchases shall be deducted.

Excess Profits Duty is a deductible expense, but not income-tax.

Legal Notes.

By Albert Crew, Barrister-at-Law.

An up-to-date knowledge of recent decisions in the Courts is of the greatest value to accountants and business men and to students reading for their examinations. In this column are noted the salient features of the leading cases decided during the preceding month.

Bankruptcy.

Motion to Rescind Receiving Order Upon Offer to Pay Debts in Full.

Where a motion comes before the Registrar in Bankruptcy to rescind a Receiving Order, the debtor offering to pay his debts in full, the Registrar may be guided by the opinion of the Official Receiver, that the debtor should submit to a public examination, but he is not bound by it. A discretion is vested in the Registrar under Section 108 of the Bankruptcy Act, 1914, and that discretion he must exercise. *In re a Debtor* (1920, B & C.R. 31).

Death of Legatee in Testator's Lifetime.

A testator bequeathed property to his son, who died in the lifetime of the testator intestate, leaving issue who survived the testator. At the time of his death the son was an undischarged bankrupt. It was held that by Section 33 of the Wills Act, 1837, the property so bequeathed was, in the events which happened, property which devolved on the bankrupt before his discharge, and consequently that by virtue of Section 38 of the Bankruptcy Act, 1914, it vested in his trustee in bankruptcy, and not in his legal personal representatives. *In re Pearson* (1920, B & C.R. 38).

Bills of Exchange.

Cheque Drawn in Francs.

A cheque for 7,680 francs (Paris) is a bill of exchange, being a sum of money certain, or which can be made certain within Section 9 (1) (d) of the Bills of Exchange Act, 1882, which provides that "the sum payable by a bill" "is a sum certain within the meaning of this Act, although it is required "to be paid . . . according to an indicated rate of exchange, or according to a rate of exchange to be ascertained as directed by the bill." The drawer cannot, as between himself and an endorsee of the cheque, set up an oral agreement between himself and the original payee that the rate of exchange shall be that ruling at the date of the cheque. In an action on such a cheque, the rate of exchange at which the amount of the judgment is to be calculated is that ruling at the day of trial. *Cohn v. Boulken* (1920, 36 T.L.R. 767).

Companies.

Quorum consisting of One Member and a Representative Appointed under Section 68 of the Companies (Consolidation) Act, 1908.

This was a petition for reduction of capital on which the only question was whether the special resolution to reduce the capital of the company

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had been duly passed. The articles of the company provided that *two members personally shall be a quorum*. There were present at the confirmatory meeting one member of the company and one representative to represent the Eastern Development Corporation, Ltd., a shareholder of the company appointed under Section 68 of the Companies Consolidation Act, 1908, which provides that a company, which is a member of another company, may, by resolution of the directors, authorise any of its officials or any other person to act as its representative at any meeting of that other company, and the person so authorised shall be entitled to exercise the same powers on behalf of the company which he represents as if he were an individual shareholder of that other company. Astbury, J., held that the meeting was duly constituted, and confirmed the reduction of capital in *Re Kelantan Coco Nut Estates Limited and Reduced* (1920, W.N. 274).

Contract.

Restraint of Trade.

Where a commercial traveller is engaged on a specified "beat" assigned to him, a covenant not to trade within a radius of five miles from any railway station or port where the employer's trade is too wide if it includes districts within which the covenantor has had no connection during the employment. Even though the traveller attains a more responsible position, which brings him in contact with the employers' customers over a large part of their sphere of operations, the covenant will still be too wide if it covers departments in which he has had no concern, and if it is not severable. *Clarke, Sharp & Co., Ltd., v. Solomon* (1920, 36 T.L.R. 759).

Refusal of Admission to a Ticket-holder at a First Night Performance.

The plaintiff, having been engaged in the production of an opera at the Palace Theatre, made charges against the box-office officials. The management then discontinued the piece and substituted another. The plaintiff obtained tickets for the first night of the new piece in the name of a friend, but was refused admission by the manager on the orders of the managing director of the company which owned the theatre. In an action against the managing director for procuring a breach of the plaintiff's contract with the company, it was held that a first night performance was on a special footing, and the personal element entered into the sale of seats, that the management would not knowingly have sold seats to the plaintiff on this occasion, and, therefore, he could not make himself a contracting party by using a third person's name, and, therefore, there was no contract enforceable by the plaintiff, and that in refusing admission the defendant was acting within the scope of his authority as managing director, and, therefore, as the agent of the company, so that if there had been a contract, the proper remedy would have been in contract against the principals, and not in tort against him for procuring a breach of the contract. *Said v. Butt* (1920, 36 T.L.R. 762).

Contract with the Crown.

A private soldier, on enlistment, was given a pay-book, which showed his rate of pay to be 6s. per day, which rate of pay he received for nearly two years. Subsequently, it was discovered that he had, in fact, been enlisted at the then current rate of 1s. 2d. per day, and that the previous payments had been made in error. He was paid at the rate of 1s. 2d. for the following four years. On discharge, he claimed payment at the higher rate of 6s. for the last four years. It was held that the well-known and often stated rule that all engagements between those in the military service of the Crown and the Crown are voluntary only on the part of the Crown, and give no occasion for an action in respect of an alleged contract, applies as well to private

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soldiers as to officers; and that if there is a species of contract between a private soldier and the Crown upon enlistment, as certain expressions in the Army Act, 1881, would seem to suggest, it is a unilateral contract only, and not one which is legally enforceable at the instance of the soldier by petition of right or at all. *Leaman v. The King* (1920, W.N. 298).

Scope of Employment.

The defendants' servant, in breach of an agreement by them, brought benzol on to the plaintiff's premises, and while drawing off some of the benzol, he negligently lit a cigarette and dropped the match into the benzol, with the result that the premises and their contents were burned down. It was held that, though lighting the cigarette was not within the scope of the servant's employment, yet the bringing of the benzol on to the premises was within the scope of his authority, and the damages naturally flowed from it, and the defendants were liable for breach of contract. *Jefferies v. Derbyshire Farmers, Ltd.* (1920, 36 T.L.R. 825).

Specific Performance: Agreed Terms subject to "Title and Contract."

Where all the terms of an agreement for sale had been settled between the parties and embodied in one document, "subject to title and contract," it was held that it was the intention of the parties not to enter into any concluded agreement, except in the form of a written and concluded contract, and as there was no such document, there was no enforceable contract. *Coope v. Ridout* (1920, 64 S.J. 684).

Possession Taken by Third Party and Part Performance.

Where A. was in negotiation for the lease of a house, and told B., who said she would like to rent the house, but afterwards informed A. that she had decided to buy it, and then, in the presence of A., told C., her nephew, that she had decided to give him the house, and C. thereupon gave up his old house, and with the knowledge of A., B. went into this house and incurred expense in so doing, and meanwhile A. had entered into a binding contract to take the lease of this house, but before the assignment thereof B. died, it was held that the Statute of Frauds was no defence by B.'s executors to an action for specific performance of this contract instituted by A. and C. *Hohler v. Aston* (1920, 64 S.J. 684).

Negligence.

Railway Company is not Liable where Child is Injured by a Moving Staircase when ineffective attempts had been made to keep Children away.

The plaintiff, a child of six years of age, was, with other children, playing on the moving staircase at Liverpool Street Station, when he placed his hand in such a position that it was caught by the moving strap which formed the handrail to the staircase, and it was so severely crushed that it had to be amputated. It was held, on the evidence, that the Railway Company was not guilty of negligence, and had done what they could to stop children playing on the staircase, and that the child was, therefore, a trespasser, and that the company was not liable. *Hardy v. Central London Railway* (1920, 64 S.J. 683).

Rate of Exchange.

In an action of negligence, causing collision and damage to a ship, and consequential loss of use of the ship during repairs, the damages must be assessed with reference to the actual period of detention. It was at that time that the owner suffered damage by loss of use. If they are proved in a foreign currency, the tribunal must convert them into English currency at

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the rate of exchange prevailing at such period, following the principles that an English judgment for damages must be for a sum of English money, and that where the damages were assessed in a foreign currency, they must be converted into English money at the rate of exchange ruling at the date, with reference to which the damages in the foreign currency had in law to be assessed, and not at the rate of exchange ruling at the date when the tribunal was called upon to convert into English money the damages so ascertained. *The Volturno* (1920, W.N. 301).

Wills and Executors.

Construction of Life Estate to Husband, "knowing he will carry out my wishes."

A testatrix bequeathed all her real and personal estate to her husband for his use and benefit during his life, "knowing that he will carry out my wishes," and four days after the date of her will signed an unattested memorandum expressing her wish that the money she left to her husband should, on his death, be equally divided among certain named beneficiaries. Eve, J., in 1920, 1 Ch. 501, held that there was no enforceable trust created in favour of the beneficiaries named in the memorandum, inasmuch as it had not been proved that the wishes of the testatrix had been known, and communicated to the husband at or before the execution of the will. The decision of Eve, J., was reversed on appeal (see *Accountants' Journal*, July 1920, p. 182), the Court of Appeal holding that the husband who took at law for his own benefit the corpus of his wife's property, could not properly refuse to carry into effect a wish as to the disposition of that property expressed to him by the wife before her death, and assented to and accepted by him. The principle was stated in *French v. French* (1902, 1 Jr. Rep. 172). In such a case it made no difference whether the will was made before or after the communication of the testatrix's wishes to the legatee, the presumption being that the testatrix would have revoked her will and made another disposition if she had not relied upon the promise expressed or implied by the legatee to fulfil her wishes. There was evidence that the testatrix communicated to the husband what her wishes were outside the will, and that he assented to and undertook the obligation imposed upon him by the fact that he would take the corpus of her property under an express or implied promise to carry into effect her wishes. *In re Gardner* (1920, W.N. 273).

Loan by Wife to Husband. Annuity Secured by Bond Substituted therefor.

A married woman in 1900 lent her husband £1,000 for business purposes, and in 1910 gave her a bond for £2,000, reciting that he had lately agreed to sell her an annuity of £40 for her life for £1,000, which, in pursuance of such agreement she had paid to him, and the husband paid the annuity regularly down to the time of his death, and after his death the wife assigned the bond for valuable consideration to a third party. It was held that in the administration of the husband's estate, which was insolvent, the third party could prove for the value of the annuity, the giving of the bond being a totally new transaction, and the circumstances of the original transaction being immaterial, and that it did not come within Section 3 of the Married Women's Property Act, 1882 (which provides that loans by wife to husband for business purposes shall be treated as assets of her husband's estate in case of bankruptcy). *In re Slade* (1920, 64 S.J. 668).

Charge on Real and Personal Estates in Proportion to their Value in case of Intestacy.

The Intestates' Estates Act, 1890, Sections 1 and 2, provide that the widow of an intestate leaving no issue is entitled, where the net value of the real and personal estates exceed £500, to £500 part thereof absolutely, and to a

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charge of £500 upon the whole of his real and personal estates, to be borne in proportion to the values of the real and personal estates ascertained as in the Act provided. It was held that the Act gives to the widow merely a charge on the realty in respect of the proportion of the £500 to be borne by such estate, and that she is not entitled to any portion of the real estate in specie (i.e. in money). *Duncan v. Duncan* (1920, 1 Jr. Rep. 212).

Misdescription of Specific Bequest.

A testatrix, who owned eight leasehold houses in Sydney Terrace, Black Rock, numbered 3 to 10 inclusive, by her will directed her executors to sell "the seven houses I hold in Sydney Terrace," and hold the proceeds upon certain trusts. It was held that the eight houses passed under the bequest, as it was a gift of an entire thing followed by an insufficient enumeration of the particulars of which that entirety consists—a false description which does not vitiate the gift. *Moore v. Phelan* (1920, 1 Jr. Rep. 233).

Soldier's Will and Death after Demobilisation.

Coleman, on mobilisation, wrote a postcard to his cousin (the applicant) directing him, in the event of his death, to inquire of his regimental company for anything left behind. While on active service he wrote to the same cousin that if anything happened to him his cousin could "claim all belongs to me, because it is in my will." It was held that the postcard and the letter taken together constituted a good soldier's will within the Wills Act, 1837, Section 11, and that the applicant, as universal legatee thereunder, was entitled to administration of the deceased's estate, with the will annexed, and that a return to civil life, prior to death, does not operate as a revocation of a soldier's will in the absence of any expression of intention to the contrary in the document itself. *In re Coleman* (1920, 2 Jr Rep. 332).

Students' Society Notes.

The Chartered Accountant Students Society of London.

The Society's Free and Advanced Courses in Bookkeeping, Accounts, and Auditing, and in Law will commence this month at the following times:—Free Accounts Class, 5 p.m. Thursday, 9th September. Advanced Accounts Class, 6 p.m. Thursday, 9th September. Free Law Class, 5.30 p.m., Friday, 10th September. Advanced Law Class, 6.30 p.m., Friday, 10th September.

Each course consists of ten classes, one class being held each subsequent week at the same time. They are held in the Examination Hall of the Institute, Moorgate Place.

The accountancy subjects are conducted by Mr. R. F. M. de Paula, O.B.E., F.C.A. (Accountancy Lecturer at the London School of Economics), assisted by Mr. W. E. E. Newman, A.C.A., and the Legal Classes are under the direction of Mr. Herbert Jacobs, B.A., Barrister-at-Law, with the assistance of Mr. T. E. Haydon, M.A., Barrister-at-Law.

The Elementary Classes are free to all members of the Society, and a fee of one guinea is payable in respect of each Advanced Course.

Examinations will be held at the end of each course, and prizes awarded. Full particulars of the above can be obtained on application to the Secretary, 48 Gresham Street, E.C.2.

The Autumn Session programme commences on Wednesday, 29th September, with a discussion on the questions set at the recent May Examinations. The discussion on the Final questions will be opened by Mr. A. R. Sweet, and on the Intermediate by Mr. J. W. Park, both gentlemen being Honours-men in the Examination.

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Mr. Jacobs, B.A., Barrister-at-Law, will deliver a lecture on the following Wednesday (6th October), on "Recent Cases on Excess Profits Duty and Income Tax," at which Sir Gilbert Garnsey, K.B.E., F.C.A., will preside.

October 13th.—Mr. H. A. Postlewaite will read his essay, which was awarded a prize by the Ministry of Labour, on the "Published Accounts of Government." Mr. F. G. Bowers, O.B.E., A.C.A., will take the chair.

October 20th.—A lecture by Mr. William Cash, F.C.A., entitled "Municipal Accounts," the Chairman being Mr. J. W. Woodthorpe, F.C.A.

October 27th.—"The Detection of Fraud in Accounts," by Mr. F. R. M. de Paula, O.B.E., F.C.A., Sir Arthur Whinney, K.B.E., F.C.A., in the chair.

November 3rd.—A Joint Debate with the Chartered Secretaries Students' Society, full particulars of which will be issued later.

November 10th.—Lecture by Sir Basil E. Mayhew, K.B.E., F.C.A., "Accounts of Hospitals and Other Charities." The President of the Society, Sir William Plender, G.B.E., F.C.A., has promised to take the chair.

November 17th.—The essay awarded first prize in connection with the recent course of lectures on Costing will be read by Mr. W. C. Green. The donor of the prize, Mr. A. Charlesworth, F.C.A., will take the chair.

The Society's Sixteenth Annual Dinner will be held at the Connaught Rooms on the 8th December next, further particulars of which will be announced later.

All the lectures, &c., will be held in the Examination Hall of the Institute on Wednesdays, at 6 p.m., except where otherwise stated.

Chartered Accountants Students' Society of Kingston-upon-Hull.

The Society had a fairly successful session during 1919-20.

The Committee is very desirous, however, of obtaining a more regular attendance at the meetings, and, generally, a greater display of interest, particularly among the younger members, for whose benefit the Society is principally being carried on.

Will members kindly note that the annual meeting will be held towards the end of August or in the early days of September. In addition to the election of officers, the business will be of a special nature, full particulars of which will be circulated prior to the meeting.

We are glad to note that all our candidates for the May Examinations of the Institute were successful, namely:—

Final.—J. S. Turnbull (Fifth Place), D. B. Hargreave, G. B. Robins.

Intermediate.—W. Houghton, and H. E. Pettingell.

Our thanks are due to Mr. W. Vivian for his kindly and energetic interest in the Society, particularly during the war years; we hope to keep in touch with him, notwithstanding his departure to another sphere of action.

Sheffield Chartered Accountants Students' Society.

The Thirty-sixth Annual General Meeting of the above Society was held in the Library, Hoole's Chambers, Bank Street, Sheffield, on Wednesday, 21st July 1920, Mr. H. C. Nicholson in the chair.

All officers having retired according to custom, the following were elected for the ensuing year:—

President and Vice-President.—Not yet elected.

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Committee.—Messrs. B. E. Brown (Chairman), H. C. Nicholson, F. Downing, S. E. Warburton, A. J. R. Slaney, J. Morrison, G. R. Simons, and K. Paterson.

Joint Hon. Secretaries.—S. Jones, c/o Messrs. Camm, Metcalfe & Co., Town Hall Chambers, 87 Fargate, Sheffield. V. G. P. Brough, c/o Messrs. Knox, Burbidge & Co., 45 Bank Street, Sheffield.

Hon. Treasurer.—W. J. Scott, c/o Messrs. Hadfield, Riddell & Co., York Street, Sheffield.

Hon. Auditors.—L. C. Howlden and T. D. Cockerill.

Representatives on Joint Committee of Union of Chartered Accountants Students' Societies.—S. E. Warburton and V. G. P. Brough.

Sub-Committee to deal with Reports to Accountants' Journal.—F. Downing, E. O. Cameron, and V. G. P. Brough.

It was decided that the annual subscription should be at the rate of 15s. per annum as heretofore, but this should no longer include cost of *Accountants' Journals*, but that a copy of Joint Transactions should be included instead. Members should in future purchase their *Journals* through the Hon. Secretary, but should bear the cost of these themselves.

The Chairman, remarking on the successful past year, said that the thanks of the meeting were due to the officers who had done their work so well. A vote of thanks to the Chairman concluded the meeting.

We take this opportunity of offering our heartiest congratulations to the following of our members who were successful at the recent examinations of the Institute :—

Final.

N. A. Denson (Honours), articled to Mr. C. Turner, F.C.A. (Now with Birmingham Society.)

B. E. Brown, articled to Mr. N. H. Deakin, F.C.A.

J. C. Brown, articled to Mr. E. B. Wortley, F.C.A.

V. B. Elliott, articled to Mr. W. Holmes, F.C.A. (Now with London Society.)

H. C. Nicholson, articled to Mr. W. G. Hawson, F.C.A.

K. P. Paterson, articled to Mr. W. U. Camm, F.C.A.

G. R. Simons, articled to Mr. G. W. Roberts, F.C.A.

A. J. R. Slaney, articled to Mr. L. S. Brady, A.C.A.

C. P. Tiptaft, articled to Mr. H. P. Barber, F.C.A.

S. E. Warburton, articled to Mr. C. F. Lawton, A.C.A.

W. W. Ward, articled to Mr. F. McBain, F.C.A.

Intermediate.

J. Black, articled to Mr. R. L. Marsden, F.C.A.

T. D. Cockerill, articled to Mr. J. M. Moulson, F.C.A.

We hope shortly to welcome the students of Sheffield and surrounding districts who have been successful in their Preliminary.

We beg to inform all students that the Saturday morning lectures, which have been suspended since the middle of July, will recommence during September.

The syllabus for 1919-20 is now in course of preparation, and any suggestions by members as to subjects for discussion, lectures, &c., would be welcomed by the Joint Hon. Secretaries.

Queries and Replies.

Correspondents who wish to make use of this column are requested to write their queries on one side of the paper only and to be as brief as possible. There is no need to enclose a covering letter if the communication is headed "Accountants' Journal, Queries and Replies column," and signed at the end with the name and address of the sender, which will not be published if the query is signed with a *nom de plume*. If the query is accompanied by a stamped addressed envelope the reply will be sent by post as soon as possible.

Directors' Refusal to Register Transfers.

Are there any instances on record where the directors of a "private" company having exercised their privilege of refusing to register the transfer of shares without assigning any reason, the transferee has taken the matter to the Court and the Court has compelled the directors to disclose the reason for their refusal, and has insisted on them registering the transfer?—C. L. P.

A shareholder has a *prima facie* right to transfer his shares freely to whom he pleases, unless restricted by the company's articles of association. In the case of a *private* company the Companies' Consolidation Act requires some restriction upon transfer, and so long as the directors *bona fide* exercise their discretion to refuse to register a transfer within the powers given by the articles, the Court will not override their decision or compel them to state their reasons (*Ex parte Penney*). But if it can be shown that the directors have not properly performed their duties or have acted from improper motives the Court may order the registration of the transfer (*Coalport China Company*). The test is whether the refusal to register is upon grounds on which power is given to directors, and it was held in the cases of *London Birmingham Bank*, *Poole v. Middleton*, and *Robinson v. Chartered Bank* that the directors were abusing their powers by a refusal to allow a transfer to *anyone at all*, but good grounds for refusal would be e.g. that the transferee is unable to pay calls or actively engaged in a rival business.

Preference Shares.

In my reading I have come across the following passages dealing with Preference Shares, and I would be obliged if you would express an opinion through the "Queries column."

- (1) In the absence of express provision to the contrary, Preference Shares are cumulative, and are entitled to rank *pari passu* with other classes of shares in the division of a capital surplus on liquidation, whether or not they have priority as to repayment of Capital.
- (2) When preferential rights are given as to Capital or Dividend, in the absence of provisions to the contrary in the articles, any right to a further share in the assets is *ipso facto* negatived. (*National Telephone Co.*, 1913, and *Will v. United Lankat Plantation Co.*, 1913.)

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*In the first passage, if the Preference Shares carry the right of priority as to Capital, how can they rank *pari passu* with the other shares?*

In the second, how can one reconcile the two statements as to return of Capital surplus?—PUZZLED.

Provisions either in the memorandum, articles, or terms of issue of Preference Shares, which give the holders a preference in regard to dividend, do *not* give preference in regard to the division of *Capital unless it is expressly mentioned* (*Driffeld Gas Light Co.*), and it was held in the case of *Griffiths v. Paget* that upon reconstruction of a company the Preference shareholders were in no better position than the Ordinary shareholders, as there was no provision as to the division of Capital.

If the Ordinary or Deferred Shares are *not* to receive the *whole* profits *after* the Preferred Shares have received their dividends, it is necessary to specifically state how reserve funds or accumulated profits are to be dealt with.

If, however, the memorandum or articles definitely state that, upon the winding-up, the Preference Shares have preferential rights, or that surplus assets must first be applied to the repayment of Preference Shares, there seems to be a diversity of legal opinion upon the question as to whether the Preference shareholders participate in any surplus *after* the repayment of the ordinary capital. Swinfen Eady, J., holding, in the *Espuela Land and Cattle Co.* case, that they do, and Sargant, J., deciding in the *National Telephone Co.*, following the decision in *Will v. United Lankat Plantations*, that they do not.

Distribution of Profits on Amalgamation.

When two private limited liability companies agree to amalgamate, and when the accounts are finally closed and made up to an agreed date preparatory to the amalgamated company taking over administrative charge, is it not customary to distribute all sums standing at credit in Profit and Loss Account on that date among the respective shareholders under the principle or usage known as "equity distribution"?

In the case in question no fresh shareholders are to be admitted, no additional capital being required, so that the proprietary body remains unaltered, and ample provision in the shape of reserve funds having also been made by both parties to the amalgamation, the equity distribution will not hamper or handicap the new company in any way.—H. M. H.

The point raised here will depend almost entirely upon the provisions in the articles of the amalgamating companies. If these declare that profits are to be applied in certain proportions amongst the different classes of shareholders, and contain no reference to a reserve fund, then the shareholders should be entitled to the amounts standing to credit of Profit and Loss. If the articles give power to directors (*R. Paterson & Sons v. Paterson*) to carry surplus profits to reserve,

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they may do so at their discretion, and possibly, in the case mentioned, they think it will be in the interests of shareholders if they retain the undivided profits as further working Capital.

Cost Accounts.

I should be very grateful if you could give me the following information :—

(1) *The name of a good text-book on general Cost Accounts.*

(2) *The name of a text-book dealing with the Bookkeeping and Accounts of Tea Estate Companies ?—HARMIC.*

We should recommend either of the following books on Cost Accounts :—

“Cost Accounts,” by Whittem Hawkins (Gee & Co.).

“Cost Accounts,” by W. Strachan, F.S.A.A. (Whittingham).

“Cost Accounts in Principle and Practice,” by Clifford Ridgway, A.C.A.

We cannot at the moment recommend any publication dealing with Tea Estate Companies, but we will make inquiries.

Secret Reserve.

Will you please let me know how sums deducted from the year's net profits of a limited liability company and earmarked by the directors for “depreciation” of buildings and plant, should be shown in the Balance Sheets?

In the case I am referring to a sum of £10,000 has been so earmarked during the last 4 years, and concurrently with these allotments an actual expenditure of £35,000 has been incurred and debited in Profit and Loss Account for the effective up-keep and repair of these very buildings and plant, so that there has been no necessity for the company to avail itself of the £10,000 placed at its disposal for “depreciation.”

How, then, as a matter of correct accountancy should this sum of unspent money be shown in the Balance Sheets, in which no trace whatever of it can be found?

I ought to state that year by year the Balance Sheets do show a proportionate reduction in the pre-war values of the buildings and plant, but this is a mere book entry and throws no light on what has become of the cash set apart for depreciation. It is neither funded under its proper heading nor does it merge into any of the other reserve funds of the company. The Balance Sheets show no trace of the £10,000—for all practical purposes it might not be in existence.—H. M. H.

In our opinion sums specifically earmarked for depreciation of buildings and plant should be shown on the Balance Sheet as deductions from the specific assets in respect of which the depreciation is provided.

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In the case given it would appear that in view of the large expenditure on the upkeep and repair further depreciation would not be necessary unless the buildings were held upon lease, in which case a Sinking Fund should be set up.

Our correspondent apparently thinks that in cases where depreciation is provided for an equivalent sum in cash is set aside, but this is not so unless a *Sinking Fund* is set up and the cash actually invested outside the business, in which case both Sinking Fund and the investment thereof would appear on the Balance Sheet as liability and asset respectively.

The method of treatment in the instances under discussion leads us to suppose that the directors prefer to regard this (apparently unnecessary) writing down of pre war values of the assets as a secret reserve, as they do not disclose the fact on the Balance Sheet.

A National Scheme of Profit Sharing.*

By Herbert W. Jordan.

In the following lecture, Mr. H. W. Jordan, the author of well-known text-books on Company Law and Practice, propounds a scheme of profit-sharing for companies, the adoption of which he contends would improve the relations between employer and employed, and help to promote industrial harmony.

The unrest which is so prevalent generally in the industrial world is not a passing phase, but is an intense condition or stage in symptoms of dissatisfaction and discomfort felt by those engaged therein which have long existed in this and other countries. Ancient records afford abundant evidence of labour unrest. In the second book of the Bible, for instance, there is given a vivid account of intense unrest on the part of the Israelites in consequence of their oppression by Pharaoh over 3,000 years ago; and in 1 Samuel xxv. 10, Nabal, a few centuries later, is recorded as making the contemptuous remark to David's young men that "there be many servants nowadays that break away every man from his master" (in response to a prosperity-sharing proposal they made to him, it is interesting to observe, in passing).

During the war this unrest occasionally broke bounds and reached an acute stage, which was relieved and perhaps sometimes even in part remedied by one influence or another; but such settlements can only be regarded as temporary expedients, and a general review of the relations between employers and employees is necessary.

Although some of the unrest and agitation is doubtless due to simple discontent, and as such beyond the power of any employer to allay, it is not fair to characterise it wholly as such, nor is it fair to judge industrial workers generally by the noise and disturbance created by the small number of "discontents," for the clamour of such a section of any community is usually out of proportion to its number. Putting aside, therefore, the noisy discontent of this minority, who we are satisfied do not represent the general body of workers, and turning to the more reasoned aims of the better advised, it must be admitted that there is much in the agitation going on in the Labour World that is good. Most people agree that the aims and aspirations of the workers generally should be recognised, and that any aim at betterment should be encouraged as possibly productive of much that is good.

It is in this spirit that I want to consider generally some of the schemes that have been put forward; to show in some cases their weaknesses; to point out, if I may, why, in my judgment, the majority of them have not been successful; and to offer a scheme of profit-sharing, in the case of companies, which I hope you will agree with

* A lecture delivered under the auspices of the Industrial League and Council at Caxton Hall, on Wednesday, 21st April, 1920, at 7.30 p.m., Sir Donald Maclean, M.P., K.B.E., in the chair.

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me is practicable and reasonably capable of putting the relationship between employer and employee on a happier plane where it is adopted.

Any scheme designed to promote industrial harmony must commence by recognising just claims made on Labour's behalf. It would be positively harmful (as well as futile), for example, to offer a profit-sharing scheme as an alternative to the concession of a standard wage or union recognition.

A claim to participate in profits is sometimes put forward on behalf of labour, and some of the more advanced and enlightened workers voice a desire to so have the conditions of their employment ordered that their status can rise and their resources be improved by being associated with their employers as co-partners, with a right to take part or assist in the control of the business in which they are employed or engaged and to participate further in the profits of the undertaking. But this is not a very general claim. Indeed, profit-sharing alone (without co-partnership) is not asked for to a great extent by labour, but rather meets with opposition in some trade union circles. Nevertheless, the view has recently been expressed by a leader in profit-sharing—Lord Leverhulme—that the Ultima Thule of Industrial Re-organisation will be reached when workmen can qualify as directors and participate in the control of industry. But Lord Leverhulme—as he was in advance of the times in the matter of co-partnership—is in advance of the times in this, which he admits.

Co-partnership is frequently associated with profit-sharing schemes, and strongly commended by many. In theory it would seem to be desirable that employees should hold some financial interest in the company with which they are associated, but, owing to the practical difficulties that arise, few companies distribute bonuses to their employees in shares. If a company desires to adopt that course, it should safeguard itself by reserving power to pay the whole or part of the amount in cash at any time when additional capital is not required, or by limiting the number of shares that employees may hold. It is true that the difficulty may be overcome in the case of public companies by applying the bonuses in the purchase of shares in the market; but private companies predominate, and their members as a rule desire to hold their shares as permanent investments. Moreover, if employees are compelled to take bonuses in shares, they have some ground for considering that they should be protected against the loss of their capital in the event of the company's prosperity coming to an end. The better course, as a general rule, would seem to be to offer every encouragement to employees to invest their bonuses in purchasing shares of the company, without, however, putting any pressure on them to do so. I think conditions should not be imposed on shareholders by reason of their being in the company's service; such persons should, I consider, have the same right to transfer their shares as if they were not associated with the company otherwise than as shareholders.

The reasons for organised labour's opposition to profit-sharing are many, but they mainly appear to be: (1) Doubt as to the sincerity of employers, who may induce workers to put forward extra effort to suit their own purposes, and then to so manipulate figures relating to their business that but little profit available for distribution is revealed,

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and the return the workers get for their greater exertions is insignificant. In effect, such employers endeavour to get cheap labour as a consequence of their promising a participation in profits. But labour cannot be fooled any more than the donkey is by the proverbial carrot, and to paraphrase a noted humorist, "You can fool all the workers part of the time, or fool some of the workers all the time, but you can't fool all the workers all the time." (2) The introduction of a profit-sharing scheme is sometimes an excuse for imposing on employees conditions which, rightly or wrongly, have been considered by the employees' union to be a veiled attack upon the principles of trade unionism. (3) If the scheme is attractive and well administered it is calculated to increase output. Labour views this as a possible cause of unemployment, fearing that over-production may be stimulated or that the labour of a smaller number of individuals may be found to suffice for a given output. (4) However much the employees may strive to make the business prosper, an error of judgment or incompetence on the part of the directing heads may nullify their efforts, so that although they may exert themselves more than could reasonably be expected under ordinary conditions they fail to receive recognition.

The first of these objections would, I think, be removed by my scheme, with which I will deal a little later. Where such ground exists for objection, as in the second instance, it appears to me that employees are justified in rejecting the proposal. Any attempt by an employer to obtain from employees the observance of conditions which he is aware could not be established through the offices of the employees' union is not to be commended. Objection No. 3 is due to narrow outlook. Restriction of output inevitably leads to unemployment, and places this country in an unfavourable position in comparison with other countries, and frequently makes it impossible for manufacturers to compete (in normal times and circumstances) in foreign markets, and loss of orders to manufacturers is the natural result.

Objection 4 must always apply in some measure (especially in highly technical and specialised industries); but it must not be overlooked that the employees' interests in this respect are identical with those of the shareholders, who perforce have to run the same risk.

It is not suggested for one moment that profit-sharing should be considered as a method of placating dissatisfied and disgruntled work-people, nor on the other hand as a dodge to "put off" employees from securing a proper and just wage. Neither is it part of the programme of profit-sharing advocates to lower wages and to offer a fluctuating (and in some cases possibly a problematical) share of the profits of the industry as a "set off." Any suggestion of this latter nature, however well intended, would inevitably give rise to suspicion, and where that feeling exists the enterprise will be handicapped from the start.

But granted the payment of a fair wage or salary at the outset, the policy of profit-sharing, it is considered by its advocates, should induce employees to take an intelligent interest in the welfare of the business or industry in which they are engaged, to feel that they are human partners in an enterprise, and not merely cogs in a wheel of a machine.

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In short, if an employee is given an incentive to interest himself in his daily occupation and encouraged to feel that he has a stake in the business and is more than a cog in one of the wheels of industry, he will be happier in his work and feel that his status is improved. The industrial world will then in the course of time see the coming into existence of a class of employee who will stabilise labour and be an efficient counter to the less responsible sections of the labour community.

To achieve success a profit-sharing scheme must be based on a desire to further these ideas, and the existence of goodwill is pre-eminently necessary between employer and employee. Suspicion on the part of employees is the most frequent disturber of the harmony and has undoubtedly been largely instrumental in bringing about the failure of many attempts. If an employer is only out to increase the production of his works, and disposed only to benefit his employees when he has quite satisfied his desire for further profit, little prospect of his workpeople becoming the happy family of the industrial reformers' aims exists, and he will only have done injury to the cause of the advocates of profit-sharing as a solution of the prevailing discontent.

The report of the Ministry of Labour on Profit Sharing and Labour Co-partnership just issued shows that of the 545 schemes which were started before 1919 only 183 are still in operation. About 35 schemes were started in 1919, and it is to be presumed that in most of such cases no distribution has yet been made. The abandonments are attributed to such causes as the death of the employer, changes of management, and failure to earn sufficient profit to enable any distribution to be made to employees; but the most common reason given is dissatisfaction on the part of employers, the apathy of the employee being the common cause of such dissatisfaction.

It seems unfortunate that so valuable and comprehensive a report does not explain the cause of the apathy of the employees (which is the root difficulty) or offer any suggestion as to how their interest could be aroused. The explanation is, I believe, in practically every case, that the employees have to accept whatever may be offered them and as a general rule are entirely in the hands of their employers. That is the weak spot in all profit-sharing schemes. It may be predicted with confidence that until the rights of the employees are safeguarded the majority of the new schemes will, like their predecessors, be short-lived. Under the existing conditions it is hardly reasonable to expect profit-sharing schemes to be an effective encouragement to the employees to avoid waste and co-operate with the management and generally to exert themselves to further the interests of the company, nor is it reasonable to reproach employees for their apathy towards the scheme. It is scarcely necessary, however, to observe that where a scheme has resulted in substantial benefits to the employees for some years it is highly appreciated and tends to promote harmonious relations between the employers and their staff.

In few, if any, cases are employees given the *right* to claim any sum under the company's scheme, and they perforce have to trust entirely to the directors' sense of honour. Profits, it is well known, may be camouflaged to almost any extent by various methods, some of which are quite unexceptionable. Employees generally are not furnished

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with copies of the Balance Sheet, but even if they were it would avail little. How many shareholders, for instance, get much enlightenment from the Balance Sheets they receive?

My suggestion, accordingly, is that all profit-sharing schemes should be on the lines of some standard formulated by the Board of Trade, or, if the standard is departed from, that official recognition should be withheld until the scheme has been agreed to by the Whitley Councils for the respective industries and also approved by the Board of Trade, and that the Board should make rules as to the application of all schemes. One of the provisions might give employees or their representative the right of access to the auditor, empowering him to demand whatever information may be needed to ascertain whether the amount allocated to employees out of profits is adequate. The auditor would not necessarily be required to furnish full details or even to disclose the amount of remuneration taken by the principal, but he would have to be satisfied that for the purpose of the scheme not more than the standard remuneration had been allowed an owner-manager or his nominees. Machinery could probably be devised in connection with the Whitley Council for the district for settling a standard method of arriving at owner managers' salaries.

Companies adopting it should undertake to administer the scheme for a definite period, such as five years. If during that period it did not prove satisfactory the company should be entitled to withdraw the scheme from operation on giving twelve months' notice of its intention to do so at the end of the fourth financial year.

To some of the reasons for failure I have referred, and there are probably others occurring less frequently and not, therefore, worth wearying you with.

Where the schemes have been given a fair trial by all the parties interested absolute failure rarely results; and it is claimed that as a general rule not only have the schemes tended to enhance the prosperity of the business but that the employees have received substantially more than their normal wages, and have proved themselves willing, contented, and happy workers (particularly where they have been admitted as shareholders).

It is my opinion, therefore, that if a standard scheme (of an elastic character) could be launched, which contained safeguards against the objections that I have mentioned, many businesses the proprietors of which have hesitated to venture on a scheme of their own evolving would be disposed to adopt it.

It may be recalled that in the early part of last year the Prime Minister foreshadowed action by the Government to further the adoption of profit-sharing schemes. More recently profit-sharing has been advocated by men of such widely divergent views as Mr. J. A. Seddon, M.P., and Lord Robert Cecil, and just lately, during Easter week, at Mountain Ash, 10,000 miners from various parts of the coalfield at a demonstration against nationalisation of mines passed a resolution opposing the project, and advocated a system of profit-sharing after payment of a fair dividend on capital and a proper wage to employees. With backing from such different quarters success for a standard scheme should be tolerably certain.

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In the first place I would suggest that to encourage profit-sharing and to popularise it some concession or advantage, such as a rebate or remission of income or profits tax, for example, should be granted to firms adopting the scheme I am about to put before you, or such other scheme as may be approved. Of course, it will inevitably be pointed out that this will occasion loss to the revenue; but against this has to be set the benefits accruing to both capital and labour as a consequence of the increased efficiency which would almost certainly result.

The standard scheme could be adopted by any companies or firms favouring profit-sharing, or by any individual employer, but the concessions made by the Government should be granted alike to companies and firms having already in operation a system of profit-sharing, subject to their respective existing schemes being approved by the Board of Trade.

Possibly it might be considered that some method of identifying companies and firms associating themselves with the project should be devised; and the identification might take the form of the right (subject to certain safeguards) to use the words "profit-sharing" after the name, which could appear on the company's letter paper and other stationery. I will refer to this more particularly later.

Under the suggested scheme the net profits available for dividend after providing for depreciation of plant, machinery, &c., according to the accepted scale, would first be applied in the payment of a 6 per cent. cumulative dividend on the issued and paid up capital (the minimum return on a sound investment), and a further 3 per cent. (non-cumulative), in view of the risks incurred by all industrial concerns.

The 6 per cent. cumulative dividend is suggested, with the 3 per cent. further dividend, as a standard return at the present time. Should the average rate of return on trustee securities vary, the rates of dividend under the scheme would vary accordingly. For example, to go back to the time when the standard was $3\frac{1}{2}$ per cent. the cumulative dividend would then have been at that rate, and the rate of the non-cumulative dividend would have been $1\frac{3}{4}$ per cent., thus entitling the employees to bonus after $5\frac{1}{4}$ per cent. had been earned. It may be that some would consider the non-cumulative dividend should be constant, and that would appear to be a logical proposal. But when the rate was $3\frac{1}{2}$ per cent., an additional $1\frac{3}{4}$ per cent. was as attractive as 3 per cent. or $3\frac{1}{2}$ per cent. is now; and, on the other hand, if the 6 per cent. standard should rise in the future to, say, 10 per cent., a non-cumulative dividend of 3 per cent. would probably be deemed insufficient.

The issue of debentures or other "loan capital" at an unduly high rate of interest with the object of securing as large a rate as possible for capital at the expense of the employees would have to be forbidden.

It may be that the standard will be considered too rigid to apply to all industries and that a Board of Referees should be appointed to modify the rates to meet varying conditions as circumstances require. A precedent for this is afforded by the Finance Act, 1917, which authorises such a Board to vary the statutory percentage allowed on capital for the purpose of calculating the amount subject to excess profits duty.

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Any profit beyond the 9 per cent. for the distribution or allocation of which provision has been made should be divided into three parts and applied as follows :—

- (a) The first third should be distributed among the shareholders as a further dividend, in accordance with their respective rights.
- (b) The second third should be distributed among employees (including acting directors, secretary, managers, cashiers, &c.) in proportion to their remuneration or in any other pre-determined proportions. The distribution may take the form of a cash payment, or be applied in any manner approved by a majority of the employees.
- (c) The third portion should be " earmarked " " Pension " and applied for the purpose of providing pensions for the employees of the company as stated later.

Assuming the case of a company the capital of which is £10,000, divided into 5,000 6 per cent. cumulative preference shares and 5,000 ordinary shares, and further assuming that a net profit of £1,200 had been earned, the distribution (if no amount were placed to reserve) would be on the following lines :—

				£
6 per cent. on preference shares .. .. .	..	..	..	300
12 per cent. on ordinary shares .. .. .	..	..	..	600
<i>Residue—</i>				
2 per cent. on ordinary shares .. .. .	..	..	..	100
To employees in cash .. .. .	..	..	..	100
To employees, on Pension Account .. .. .	..	..	..	100
				<hr/>
				£1,200
				<hr/>

The distribution under (a) needs no comment.

The distribution under (b) would normally be made in cash, but it is desirable that wherever possible employees should be invited to apply their bonuses in purchasing shares of the company. Employees should not, I consider, be compelled to take shares in satisfaction of their bonuses, as it would seem to be better to encourage them to practise thrift rather than to make thrift compulsory.

Difference of opinion exists as to whether it is better to make the amount paid to an employee proportionate to his salary or to make it correspond with his position in the business. As a general rule the amount of the salary or wages is the most convenient basis on which to apportion profit, though the two ideas may be incorporated if desired.

The manner in which the third portion (c) would under the proposed scheme be applied to pension purposes requires to be explained.

The provision for the needs of old age is a question which vitally concerns most industrial workers. That, and the upbringing and education of their sons and daughters, are questions closely related, and the assurance of the former would tend to make the accomplishment of the latter more free from anxiety and concern. The disposi-

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tion of profits under (c) therefore calls for close consideration, designed as it is to relieve employees to some extent of the burden of providing for the requirements of age, and to that extent releasing a man's savings for other and more immediate uses. It is suggested that the funds available under this head should be paid into a State-approved pension fund, each employee being credited with the proportion paid in on his account. He would have a pension book in which would be recorded the amount paid in on his behalf, and the book would be made up at regular intervals. When an employee reached the prescribed age (say 61) he would be entitled to an annuity justified by the amount which had been paid in to the pension fund. The pension fund should be administered by a group of insurance companies of proved stability, the risk being shared by them and "backed" by the State.

If an employee left to enter the service of another profit-sharing company, his participation would go on as before, but if he entered the service of a company not adopting the scheme, provision should be made to allow him to make deposits or pay premiums to supplement the amount standing to his credit. If he did not enter the service of a firm contributing to the pension fund under the scheme, and did not himself make any payments thereto, he would, when the time came, receive as annuity the amount justified by the original allocations of profits to pension fund on his behalf. His interest in the application of (c) is solely in respect of pension, and he would not be entitled to be paid out as part of the contribution made on his behalf any proportion of the sums paid into the pension fund by his employers.

Where, however, an employee not employed in a profit-sharing company makes voluntary contributions to supplement the contributions of any previous employer, he should be entitled to the repayment of such voluntary contributions, with a justified addition as interest, after giving notice and satisfying prescribed conditions. This is not a matter repenting any great actuarial difficulty, and in point of fact is nearly comparable to the practice of at least one insurance company in respect of annuities.

It is suggested that by this means it will be possible for every industry to make some direct provision for the old age of its employees without itself incurring any future liability which it might be unable to meet, and the reproach that, after having claimed a man's services for perhaps the whole of his life, he has been thrown on his own resources at an advanced age, would not be so frequently heard.

It might be preferred that the total of the amounts paid into the State Fund should be pooled, so that the employee of a company making modest profits would participate equally with the employee of a highly prosperous company. It is conceivable that such an arrangement would be advantageous, as every worker (as distinct from those who are "independent") would be assured of some provision, whether the company or firm he had served were prosperous or not. But I would not suggest pooling the amount payable in cash, as to do so would remove the incentive on the part of the employees to do their best to further the prosperity of the individual business in which they were engaged.

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It is scarcely necessary to add that benefits under such a scheme would be paid as of right, and there should not be taken into account in any way income derived from savings in any other manner. The question of the modification of the system of paying the existing national old-age pensions ought to be considered in this connection.

Before any distribution of profits the company's accounts and the amount available for dividend and apportionment under the scheme should be certified. Where an audit is regularly conducted by a firm (or individual) of Chartered or Incorporated Accountants, their certificate should be acceptable.

Profits placed to reserve should be treated as additional capital for the purpose of calculating dividends. If, in the example I have given, the directors placed £200 of the £1,200 profit to reserve, the ordinary shareholders would only take £500 instead of £700, or a dividend of 10 per cent. for that year, but in the following year their proportion of the profits would be calculated on £5,200, i.e. ordinary share capital £5,000, plus reserve £200. The amount to which they would be entitled would work out at £712, equal to a dividend of approximately 14½ per cent. If, however, it was again determined to make a similar sacrifice by placing (assuming the profits, for the sake of example, were the same) a further sum of £200 to reserve, the ordinary shareholders would receive a dividend of approximately 10½ per cent., and when the next accounting period came round the amount of the ordinary shares, for dividend purposes, would be reckoned as £5,400, and carry the right to a dividend on that sum. For the purpose of the scheme it is assumed that the amount standing to the credit of the Reserve Fund will be equally as productive as the issued capital of the company. Any premium on the issue of shares would be treated as an addition to the capital.

Frequently, the authorised or issued capital of a company bears little relation to the value of the business, and the market price (where quoted) is not always a reliable criterion. In fairness, therefore, both to employees and shareholders a valuation should be made where an existing company adopts the scheme, and the value so fixed should be the basis on which dividends are paid.

If, for example, in the case instanced earlier of a company with a nominal capital of £10,000, a valuation showed the business to be worth only £8,000, the shareholders would be entitled to 9 per cent. on that amount, viz. £720 (equal to 6 per cent. on the £5,000 preference shares and 8½ per cent. on the £5,000 ordinary shares) and one-third of the sum of £480, the balance of the profits. But if the valuation figure were £12,000 the shareholders would be entitled to £1,080 (equal to 6 per cent. on the preference shares and 15½ on the ordinary shares) and one-third of £120, the balance of the profits.

The prospectus of the Newfoundland Fish Products, Ltd., the subscription list of which closed last week, affords an interesting illustration of the working of the scheme. The capital is £300,000, divided into 250,000 8 per cent. cumulative participating preference shares of £1 each and 1,000,000 ordinary shares of 1s. each.

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In Bryant & May's case employees participate after payment of 8 per cent. dividend, free of income-tax (the equivalent of 11½ per cent.). If the value of the business is accurately reflected by the market price of the shares (33s.) employees would, on the basis of that scheme, participate after payment of 7 per cent. dividend (subject to income-tax) to the extent of one-half of the surplus profits (subject to directors' recommendation). Under my scheme employees would participate to the extent of two-thirds of surplus after payment of 9 per cent. dividend.

If we accept the promoters' estimate of the net profits, namely, £138,110 per annum, the distribution under my scheme would be as follows:—

Profit	..	..	..	..	..	..	£ 138,110
9 per cent. on issued capital of £300,000	..					..	27,000
							<hr/>
Balance	..	..	..	..	..	..	111,110
One-third to Capital	..			..	..	..	37,037
							<hr/>
To Employees	..	..	..	..	..	..	<u>£74,073</u>

The prospectus states that after payment of the fixed preferential dividend of 8 per cent. the profits are to be applied in the payment of a dividend of the same amount to the ordinary shareholders, and any balance is to be distributed equally between the holders of the respective classes of shares.

The sum of, say, £64,000 (£27,000 plus £37,037), due to capital, would therefore be divisible as follows:—

			£
8 per cent. on £250,000 Preference Shares	..	20,000	
40 per cent. on £50,000 Ordinary Shares	..	20,000	
4½ per cent. on £250,000 Preference Shares	..	12,000	
24 per cent. on £50,000 Ordinary Shares	..	12,000	

It will be observed that the dividend on the preference shares will be at the rate of 12½ per cent., and on the ordinary shares at the rate of 64 per cent. If the promoters' optimism should be justified it may be that the large dividends paid to shareholders would reconcile them to the payment of even so large a sum as £74,073 to the employees.

If any sum were placed to reserve the shareholders would take a smaller amount in dividend, but the amount of the reserve fund would be reckoned as capital for the purpose of calculating dividends. If, for example, the reserve fund amounted to £10,000, dividends in the following year would be calculated on the sum of £310,000 (so that the ordinary shareholders could take a dividend at an even higher rate than 64 per cent.).

With proper safeguards to secure the rights of participation under the scheme of employees, their willing and intelligent co-operation with

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the directors in the conduct of the business should be anticipated with confidence, and increased efficiency should as a consequence result.

In the enhanced profits that would probably follow I suggest employees should participate; and if, after capital has received a dividend of 9 per cent., the balance is divided between the shareholders and the employees in the proportions of one-third and two-thirds as already explained, I think an equitable apportionment will be reached although the proportions (as in the case of the standard percentage on capital) might well be modified by a Board of Referees to suit particular industries.

I have endeavoured to set before you as briefly as I can the main features of the scheme I suggest and have given cases to illustrate its working.

To show its possibilities as a means of providing pensions, I have obtained from two large profit-sharing companies a statement of the amounts paid to their employees under their existing schemes, and have estimated the bonuses which would be received by the employees under the plan outlined.

During the past ten years each employee of Messrs. Clarke, Nickolls & Coombs, Ltd. (other than those casually engaged) received a cash bonus of, on an average, £8 5s. 6d. per annum. If the distribution had been made as suggested in my scheme, each employee would have received approximately £11 14s., of which half would be paid in cash and half paid away for pension purposes.

From actuarial estimates I have had prepared it appears that the £5 17s. paid in on Pension Account would, in the case of a man of 21, entitle him to a pension of £65 18s. 2d. on his attaining the age of 61, assuming the extent to which he shared in the surplus profits of the company to be maintained.

In the case of an employee coming within the operation of the scheme at the ages of 31 or 41, the annuity would amount to £38 17s. 10d. or £20 1s. 9d. respectively.

In the case of a female employee, the annuity would be slightly less by reason of the expectation of life being longer in the case of women.

In the case of Messrs. Spillers Milling and Associated Industries, Ltd. (whose scheme of profit-sharing only applies to the clerical staff), their returns for the past four years show that those entitled to participate received, on an average, £17 10s. in fully paid shares of the company and £6 10s. in cash.

Under my scheme (if applied to all the employees) it is estimated that each employee would receive approximately £16, half being paid in cash and half as pension premium.

The actuarial estimate in this case shows that such an allocation, if paid on behalf of a man of 21, would yield a pension of £90 2s. 6d. on his reaching the age of 61; that is assuming the rate of participation to be maintained.

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The introduction of a profit-sharing scheme may to those who have not concerned themselves with the subject give rise to apprehension and fear that the market value of the shares of the companies adopting it may be adversely affected.

To allay any such misgivings or apprehensions I have looked up the quotations of the ordinary shares of all the companies that have adopted profit-sharing schemes whose shares are quoted on the Stock Exchange, to see if there is any evidence that the introduction of their schemes has had a prejudicial effect on the market price, and I find that in every instance only the normal market fluctuations have occurred. The following figures give (1) the price at approximately twelve months before the scheme was initiated; (2) the price at the approximate date of its adoption; and (3) the price approximately twelve months after; and they will be seen to support my statement.

Spillers Milling and Associated Industries, Ltd.	1905	1906	1907
1906*	13½	13½	14½
Pease & Partners, Ltd.	1906	1907	1908
1907*	15	11½	11½
Bradbury, Greatorex & Co., Ltd.	1913	1914	1915
1914*	7½	5	8
William Cory & Son, Ltd.	1913	1914	1915
1914*	1½	1½	1½
Home & Colonial Stores, Ltd.	1914	1915	1916
1915	2½	2½	2½
William Hollins & Co., Ltd.	1916	1917	1918
1917	1½	1½	1½
Burmah Oil Co., Ltd.	1918	1919	1920
1919	8½	13½	17
British Empire Trust Co., Ltd.	1918	1919	1920
1919*	1½	1½	1½
Distillers Co., Ltd.	1918	1919	1920
1919*	18	19½	19½
London County Westminster & Parr's Bank, Ltd.	1918	1919	1920
1919*	17	16½	14½
Bryant & May, Ltd.	1918	1919	1920
1919*	1½	1½	1½

*The year in which the scheme was introduced.

In putting these propositions before you I do not attempt to suggest that the details of the scheme should be regarded as other than tentative, and if any feature should be calculated to frighten capital—even though the apprehension might not be justified—modification of the offending provision would be imperative. On the other hand, it should be borne in mind that no scheme will achieve any useful purpose unless in framing it a *bona fide* attempt is made to, in some measure, satisfy the reasonable aspirations of labour and to put the relationship between employer and employee on a happier footing.

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A Company Secretary's Duties—V.

By W. H. Fox.

(Author of "The Company Secretary.")

The bookkeeping system of a company must naturally vary according to the class of business carried on, but there are certain fundamental books which must be kept regularly written up by all companies, and it is to a description of these that the following article is devoted.

Books of Account.

The phrase "Books of Account" is intended to include only those financial books relating to the company's operations, exclusive of the Register of Members and other statutory books which have been dealt with elsewhere.

Every class of business carried on by limited companies, and, indeed, companies carrying on the same class of business, do not necessarily have the same set of financial books for the purpose of recording their transactions. The one object to be always kept in view is to have such a set of books as will be most suitable in the particular case, and which will clearly and sufficiently record the company's transactions with the least possible duplication of entries.

When a business starts on a small scale it will naturally not be desirable to have so many or such elaborate books as may be necessary when the operations have become extensive and the financial position of the business justifies the employment of a highly paid staff.

Moreover, as companies carrying on manufacturing operations extend, the question of cost becomes more and more important, and it may be found necessary to have a special staff engaged upon elaborate cost books, which at first, whilst the operations are few, may be of quite an elementary character.

The bookkeeping arrangements will thus gradually extend themselves, keeping pace with the extension of the particular business with which the company is concerned, but in every case, whether a company starts without a business, and gradually builds one up, or whether it acquires a going concern, there are certain fundamental financial books which must

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be kept regularly written up. These may be generally stated as follows : (1) Bank Account, (2) Petty Cash Book, (3) Bought Day Book, (4) Bought Ledger (Creditors' Accounts), (5) Sales Day Book, (6) Sales Ledger (Debtors' Accounts), (7) Bills Payable Book, (8) Bills Receivable Book, (9) Wages Book, (10) Stock Book, (11) Private Journal, (12) Private Ledger.

The most important of the books is that containing the Bank Account, which is really only an ordinary personal *Dr.* and *Cr.* Account with the bankers, being kept in a separate volume to facilitate posting operations.

Every item of cash received, whether in the form of cheques or actual coin, should be paid into the Bank Account, and the book should be written up from day to day. It is permissible in the case of a business where actual cash may be received from customers and required for urgent payments—and especially in the case of a company in the country some distance from its bankers—to pay out actual money received. A company's cheque should, however, always be drawn for the total of such amounts paid, and remitted with other credits to the bankers, thus appearing on the same day to both the credit and debit of the account.

As the business grows, it will be desirable to make sectional agreements of the books, and for this purpose either separate Cash Books (for instance, of cash received from customers in certain districts covered by different travellers who make their daily returns to headquarters) will be written up, the totals of which will be brought into the general Bank Account. If the entries are not sufficiently extensive to warrant this procedure, separate columns may be kept in the Cash Book, the totals of which can be dealt with for the purpose of this sectional agreement.

An arrangement of this sort will also be found necessary in dealing with the entries on the paid side of the Bank Account.

This sectional agreement will necessitate the use of separate debtors' ledgers, the balances of which will be taken out monthly and agreed with the respective totals appearing in the Private Ledger, under the title of "Sales Ledger—Debtors."

In providing the necessary columns in the Bank Account for the purpose above indicated, it must not be forgotten that on either side of the book there will be a special column for the entering of discounts allowed to customers or discounts allowed by trade creditors on the payment of their accounts. These discount columns will be totalled monthly, and such totals—so far as discounts allowed to debtors—will be debited to Sales Account, and—so far as items allowed by creditors—will be credited to Purchase or Materials Account.

It is scarcely necessary to remind the reader that the account with the company's bankers in the company's own books will be, say, "The Securities Bank in account with the Trading Company Limited," and in the bank's books the account will be "The Trading Company Limited in account with the Securities Bank." Thus the Pass Book supplied by the bank, and which agrees with the books of the company, is not really a copy of that appearing in the bankers' Ledgers, but the entries are reversed for the convenience of the customer. There are, however, some banks in the country to-day, and even in London, with such archaic ideas as to render their customers a copy of their own Ledger, the excuse being given that the bank clerks would probably

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make mistakes in writing up the Pass Books if they had to transpose the entries appearing in the Bank Ledgers.

At the end of each month a note should be made in red ink in the Bank Account Book, starting with the balance which appears in the Pass Book, adding to this country cheques or other amounts not yet credited, and deducting from it the cheques which have been issued by the company but have not yet been paid by the bank, the resulting balance being that appearing in the company's Bank Book.

A special column should be kept on the credit side of the account for the voucher number, to be entered in red ink, the items of payment to be numbered consecutively, and the receipts to have the same numbers for production to the auditors.

The Petty Cash Book in the first place will be debited by a cheque for a round sum, for which cash will be obtained at the bankers, and the payments entered in detail, so that a monthly summary may be made and the relative accounts charged with the disbursements. The adoption of this imprest system is recommended, as at the end of every month an analysis of the Petty Cash payments is made, and a summary entered in the Petty Cash Book under the various heads of accounts which have to be debited in the Ledger.

A cheque will then be drawn for the total amount of the monthly summary, and the details can be posted from the actual Bank Account, and thus a fixed sum of cash will always have to be accounted for by the petty cashier.

It is undesirable that there should be analysis columns in the Petty Cash Book, as many columns usually have but few entries, and the book is made unwieldy in size.

In the Bought Day Book will be entered the invoices for the goods purchased, which will go to the credit of the Personal Accounts in the Bought Ledger. In order to lessen the actual work of posting to the Bought Ledger, the invoices may be kept until the end of the month and sorted in alphabetical order, and one posting therefore made for the credit of each Personal Account per month. At the end of the Bought Day Book certain pages may be set aside for the purpose of entering any goods returned, which will be posted to the debit of the Personal Accounts.

The monthly total of the goods purchased will be posted to the debit of the Purchase Account in the Private Ledger, and a monthly total of the allowances on goods returned appearing at the end of the Purchase Book will be posted to the debit of the Purchase Account.

These monthly summaries may be divided under various heads in order to retain particulars of the different classes of expenditure which are dealt with.

If a sectional agreement of the books is made, an adjustment account between the Private Ledger and the Bought Ledger or Creditors' Ledger will appear in both Ledgers, and the bookkeeper must take out a list of the creditors' balances from the Bought Ledger, which should agree with the balances of the Adjustment Account.

As regards the Sales Day Book and Sales Ledger, operations will be of the same nature as those described in connection with the Bought Ledger, but the *Dr.* and *Cr.* entries will be reversed.

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As regards the Bills Payable Book, the entries here can be posted direct to the debit of the suppliers of the goods, and monthly totals will be posted to the credit of bills payable in the Private Ledger.

Bills receivable also will be posted direct to the credit of the customers from whom they are received, and the monthly total will be posted to the debit of bills receivable in the Private Ledger.

The Wages Book and Stock Book before referred to in the list of books, do not require any special observations, and they will be kept in such form as is found most serviceable for the particular company's business.

The further books remaining to be dealt with are the Private Journal and the Private Ledger. This Ledger will contain all the nominal accounts, including all the Income and Expenditure figures which go to make up the Profit and Loss statement. It will also include all Credit Capital Accounts and permanent outlay and Capital Expenditure, and also the totals of the Personal Ledgers where sectional agreement is carried out.

As regards the permanent accounts in the Private Ledger, the following may be mentioned :—Bank account, bought ledger (creditors), business purchase account, calls on shares, calls paid in advance, commission on placing shares and debentures, debentures, consignments, dividend account, foreign branches, forfeited shares, freehold property, goodwill, investments, loan account bankers, mortgages, office furniture, patents account, plant and machinery, preliminary expenses, rolling stock, sales ledger debtors, reserve account, share capital, stock in trade, suspense account, vendor's account.

As regards the various Debit Accounts, consisting of different classes of expenditure which have to be charged to Profit and Loss, it is recommended that most of these may be posted under the one account of "general charges," and that this account can be analysed when the annual Balance Sheet and Revenue Accounts are prepared.

The following may be taken as a representative list of accounts from which the Profit and Loss Account is made up. They are in alphabetical order :—Accountants' charges, advertising, bad debts, bank charges, carriage and cartage, depreciation, directors' remuneration, discounts and allowances (trade), dividend account, donations, gas and electric light, horse keep, income-tax, insurance, interest, law costs, managing director, materials, office salaries, profit and loss account, purchasers, rates and taxes, rent, travelling expenses, uncompleted contracts, wages.

At the end of the Private Ledger, it may be useful to have a copy of the Final Trial Balances and the Balance Sheet and Profit and Loss Account at the end of the year.

The account "Bought Ledger Creditors" would form part of the sectional agreement of the books, and would agree with the Debit Balance of the Adjustment Account in the Bought Ledger. By bringing in the figures relating to the Personal Ledgers in monthly totals a balance is arrived at by the Secretary independently of the figures supplied by the bookkeeper, and will afford a check upon the lists of detailed personal balances at the end of each month. The entries are extracted from the totals of the various subsidiary books periodically, and entered in the Private Journal, from which they are posted to the Private Ledger.

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The advantage of passing these figures through the Private Journal is that, at the end of any period when the books are being balanced, a reference back to the previous year will enable the Secretary to see what entries were made, and these will form a precedent for dealing with the current figures.

The Business Purchase Account implies that the company acquired a going concern, and the agreed price, in accordance with the Purchase Contract, will be entered through the Private Ledger to the debit of the account, the vendor being credited, and these figures are dealt with in detail under the head of "Goodwill."

Calls on Shares.—When a call has been made by the directors, or is due in accordance with the terms of the prospectus issued by the company, the total will be credited to Share Capital Account, and debited to "Calls on Shares," and as the cash is received, this latter account will be credited. The balance on this at any time will represent the amount of calls outstanding, and at an early date after the call is due the figures should be agreed with the Call List, and any shareholders in arrears with their calls should be communicated with.

Commission on Placing Shares and Debentures.—This, under the terms of Section 90 of the Companies Act, 1908, must be stated in every Balance Sheet of the company until the whole has been written off.

Foreign Branches.—Where the company has branches abroad, for instance, in France, a separate set of books must be kept at the branch in francs, and a separate Balance Sheet and Profit and Loss Account prepared in the currency of the country. The question of foreign exchange arises here, and the rule to be adopted is that the capital outlay at the foreign branch will be fixed at the rate when the actual expenditure was incurred, whilst current assets and liabilities must be dealt with at the rate of exchange when the company's accounts are prepared. The branch will be debited at the current rate with the amount of the profit, and the head office Profit and Loss Account credited.

It will often occur that there are outstanding questions on the Foreign Branch Accounts which cannot be settled immediately, and these items should be reserved for in the head office books. It is desirable, if possible, to make a special reserve in the head office books against outlay at foreign branches, as in the event of any of these being closed a serious deficit may arise.

Forfeited Shares.—There will be a credit on this account, arising from calls received on shares partly paid up and forfeited. If these shares are resold by the company the balance may have to be transferred to Capital Account, but if no resale is effected it is desirable, after a reasonable time, to transfer any credit remaining on this account to General Reserve.

Goodwill.—This must be stated separately on the Asset side of the Balance Sheet. A peculiar situation has sometimes arisen in the case of a company purchasing a going concern at a fixed price, which includes profits accruing from a date prior to the date at which the company is formed and takes over the private undertaking. If, during this period,

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a loss instead of a profit is made, the company has less actual assets to take over, and consequently pays *more* for the Goodwill than if profitable results had meanwhile been made.

A company cannot earn or distribute profits until it has been registered. In the case where profits are made by the vendors in the period between the date from which the business is taken over, and the date of the company's registration, and a fixed price is paid for the business, the Goodwill costs *less* than in the former case mentioned where a loss may have been made.

The account " Goodwill " has this further peculiarity, that the larger the profits the more necessary it is to write down the value of the Goodwill year by year, through the Profit and Loss Account, notwithstanding the Goodwill is of greater value as greater profits are earned. The point is, however, that unless Goodwill is written down when favourable trading results are obtained, a period may come when profits become reduced, and there is not sufficient credit balance to write down the Goodwill Account, which appears as an asset in the Balance Sheet, but is not represented by any actual tangible assets.

The following account shows the entries which would appear in the Business Purchase and Goodwill Account in the Private Ledger, where the agreed purchase price of the business is £50,000, the net result being that the Goodwill representing the difference between the actual assets and liabilities taken over, and the £50,000 purchase money, comes out, after adjusting interest and profits, at the figure of £14,753 4s. 4d. This should be written down at the earliest possible moment to a round figure, and disposed of altogether as soon as the profits permit.

Patents Account.—This is of a similar nature to Goodwill Account, and should be treated accordingly.

Plant and Machinery.—The value of this should be written off by way of depreciation year by year, and the depreciation should be calculated on the original cost, and not on the balance remaining, as is often customary. Fixed asset accounts of this nature should be written down to a round figure.

Vendor's Account.—This is so important that the following figures, showing a specimen Vendor's Account as appearing in the company's Private Ledger, are given for consideration.

All the assets and liabilities of the business taken over from the 1st July 1919 are shown in the Private Journal entry as a matter of record.

The figures in the Vendor's Account will, however, be reversed, so that he will receive credit for a sum of £50,000, consisting of assets (including Goodwill) bought by the company amounting to £52,477 19s. 5d., less liabilities of £2,477 19s. 5d., taken over by them.

The vendor is paid partly in shares, partly in debentures, and partly in cash, in accordance with the terms of his contract of sale to the company. He is further entitled to interest at the rate of 8 per cent. from the 1st July 1919, at which date the business is taken over, until the 1st October 1919, when the company is formed, and from this latter date his shares carry full dividends, and his debentures carry full interest.

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BUSINESS PURCHASE AND GOODWILL ACCOUNT

(In Company's Private Ledger)

Dr.

Cr.

<i>Liabilities at the 1st July 1919, taken over.</i>		<i>Assets at the 1st July 1919, taken over.</i>	
1919 Oct. 1	£ s d	1919 Oct. 1	£ s d
To Creditors, Open Accounts ..	853 7 6	By Book Debits taken over ..	6,501 8 0
" Sundry Reserves for charges ..	100 0 0	" Cash at Bank and in hand ..	723 7 1
" Bills payable ..	1,501 11 11	" Freehold Property ..	10,000 0 0
" Accrued wages, &c. ..	23 0 0	" Bills Receivable ..	2,100 0 0
		" Fixed Plant ..	2,400 0 0
" Agreed purchase price of business ..	2,477 19 5	" Movable Plant and Furniture ..	900 0 0
	50,000 0 0	" Stock-in-Trade ..	1,000 0 0
		" Uncompleted Contracts ..	7,500 0 0
		" Insurance, &c., paid in advance ..	100 0 0
		" Paris Branch, net assets ..	5,600 0 0
			36,824 15 1
		" Balance, carried down ..	15,653 4 4
			£52,477 19 5
<i>Liabilities brought down, being net Goodwill at date of Company's registration as per Vendor's Balance Sheet</i>		<i>By Profit and Loss Account, one-fourth of Profit of the business for the 12 months accrued between the date when the business was taken over (viz. 1st July 1919), and the date of the registration of the Company (viz. 1st October 1918), say one-fourth of £7,600</i>	
1920 July 1	£ s d	1920 June 30	£ s d
To Balance brought down, being net Goodwill paid for Goodwill ..	15,653 4 4	By Profit and Loss Account, one-fourth of Profit of the business for the 12 months accrued between the date when the business was taken over (viz. 1st July 1919), and the date of the registration of the Company (viz. 1st October 1918), say one-fourth of £7,600	1,900 0 0
	14,753 4 4	Balance, carried down ..	14,753 4 4
			£16,653 4 4

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Dr.	VENDOR'S ACCOUNT.		Cr.		
1919	£	s d	1919	£	s d
Nov. 15—To Bank, on account of purchase	5,000	0 0	Oct. 1—By Business Purchase A/c In accordance with terms of Contract with the Vendor ..	50,000	0 0
" 30— " Do do .. do ..	5,000	0 0	" " Interest at the rate of 8% per annum from the 1st July to the 1st October 1919	1,000	0 0
" " " Share Capital Account 2,000 Shares of £10 each	20,000	0 0			
1920					
Jan. 12— " Bank Account for Interest	1,000	0 0			
May 15— " Debenture Account, 200 Debentures of £100 each	20,000	0 0			
	£51,000	0 0		£51,000	0 0

It had been intended in the present article to deal with the subject of the accounts which the Secretary would have to deal with in the case of a reconstruction. Owing, however, to the length of the present article having already reached, or even exceeded its allotted space, it is proposed to deal with the matter in Article No. VIII., the last of the series, under the heading of "Voluntary Liquidation and Reconstruction."

Business Education.

The Calendar for the twenty-sixth Session of the London School of Economics and Political Science (University of London), which opens on Monday, the 4th inst., is of particular interest, because provision is now made for the full curriculum of the Degree of Bachelor of Commerce, the lecturing staff having been augmented with that end in view. The lectures in "Accounting and Business Methods," which have been considerably amplified to meet the requirements of different classes of students, are divided between Professor Dicksee and Mr. de Paula, but those on "Business Organisation" in the Michaelmas and Lent terms and on "Cost Accounts and Efficiency Methods" in the Summer term, are by Professor Dicksee alone. The courses on "Banking and Currency," which are of especial interest in these days of inflation and unsettled foreign exchanges, are divided between Professor Foxwell and Mr. T. E. Gregory. In the department of "Commerce and Industry," the courses on "The Elements of Industrial Organisation," by Mr. Drummond Smith, and upon "The Organisation of Industry," by Mr. Dalton and Mr. Drummond Smith, are likely to be of especial interest to accountant students, but there are other courses by Mr. Gregory and Professor Sargent that should certainly not be overlooked by those engaged in foreign trade. The department of "Economics" is in the able hands of Professor Cannan, supported by Mr. Dalton and Mr. Drummond Smith. As regards Law, Professor H. C. Gutteridge (one of the newly-appointed Sir Ernest Cassel Professors) is responsible for various courses in "Commercial" and "Industrial Law." There are separate courses upon "Constitutional Law" by Dr. Bellot, and on "International Law" by Professor Pearce Higgins; while the earnest student will certainly profit much by the lectures on "Logic and Scientific Method," for which Dr. Woolf is responsible, and also from a study of some of the numerous branches of Psychology that are so ably dealt with at this school.

The Principles of Costing—V.

By A. Cathles, O.B.E., C.A.

The main purpose of this article is to explain the method to be adopted in grouping the elemental costs, the form of the Cost Books that should be kept, and the procedure necessary in the keeping of same.

When considering the three elements of cost certain loose ends were left, and it will be well to recapitulate shortly the subjects already discussed and to indicate these loose ends that must be gathered together in order that the final cost of production may be ascertained.

In connection with "Wages" there was discussed the organisation necessary to ensure that no wages were paid except they had been earned—that is to say, questions of timekeeping were gone into, as also were the recording on Time Sheets of the time worked by men and machines on the various jobs, and the compilation of the pay-roll, the make-up of the pay, and the actual payment of the wages. Finally, there was considered the analysis of the hours worked and the wages earned on each of the jobs, processes, or general services during the week, and the subject was left after the total of the analysed wages as ascertained from the Time Sheets had been agreed with the total of the pay-roll for the same period. The value of the wages to be charged to each job, &c., was ascertained, but left as a loose end without any explanation as to the treatment to be accorded to it in order that it might form a debit to its appropriate Cost Account.

In a similar manner, after there had been discussed the procedure in connection with the purchase and receipt of "Materials," which procedure has not really anything to do with costing proper, there was considered the recording of the issue to and the return from the jobs, &c., of raw material and the receipt of the finished product in the store. The listing of the requisitions, the ascertainment of the quantities of each class of material used on each works' or standing order, and the pricing of these quantities to obtain the value of the materials used on each order, were thereafter gone into, and the matter was left without any indication as to how these amounts were to be charged up in the Cost Accounts.

Next, the various classes of "Oncost" expenditure were considered in some detail, and the method of allocating such expenditure to Works' Orders by the creation of man-hour and machine-hour rates was explained. These rates having been fixed; it will be remembered, it was only a question of multiplying them by the hours worked by men and machines respectively on the various jobs. Thus the amount to be charged to each order was ascertained, but no explanation was given of the bookkeeping entries to be made in the cost books.

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Cost Books.

In America it is a common practice to have the Cost Accounts as an integral part of the financial books of the business. That means that each week or month the various accounts for wages, materials, and all the other expenses, are cleared by means of transfers to the appropriate Works' Order, Standing Order, Departmental Oncost, and Machine Rate Accounts. One result of such procedure is that it is impossible without a great deal of labour to ascertain at the end of a financial period the total amounts of expenditure for the period under the various heads of expense. Such a procedure is possible in America because there businesses do not adhere slavishly to common forms for the Manufacturing, Trading, and Profit and Loss Accounts. In this country, while the present forms of these accounts are retained, it will be practically impossible to combine the ordinary books of account and the cost books, and it is doubtful if such a combination is desirable so long as it is borne in mind that the costs (and, therefore, the cost books) must be based upon, and capable of reconciliation with, the financial books of the business.

Three books are necessary for the keeping of the Cost Accounts, and they are (1) Cost Journal, (2) Works' Order Ledger, and (3) General Cost Ledger.

Cost Journal.

This is the book of original entry by means of which the expenditures shown in the financial books are taken on charge in the cost books, and the transfers made from one account to another within the cost books. It should be ruled to provide debit and credit columns for each of the two ledgers, and in all respects should be similar to the ordinary columnar Journal that one is familiar with in ordinary bookkeeping.

Works' Order Ledger.

In this Ledger will be kept one account for each Works' Order that is issued, and it should be ruled on the debit side to provide columns for "No. of man-hours," "Wages," "Material," and "Oncost." Such detail will facilitate the ascertainment at any time of the total charges for each element of cost on any Works' Order without involving the labour of analysing the account, while the provision of the man-hour column will make easy the calculation at any time of the oncost due to be charged to the account. In order also that the state of any account may be readily ascertained it is well to enter in red ink on the debit side of the account any credits for material returned to store. If this procedure is followed, the provision of a single money column on the credit side of the account will be sufficient, for then the only credit entries required will be either the selling price and loss on same, or the total cost of production, according as the cost books are required to show the profit or loss on each individual order or not (as explained later).

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General Cost Ledger.

This book may aptly be compared with the Nominal Ledger in the financial books, for it is intended to contain accounts for the recording of the various expenses, for control purposes, and to show the profit or loss on the working of the business. Wages and Materials will each have one account, while other necessary accounts will include Oncost Account, a Departmental Oncost Account for each department, a Machine Rate Account for each machine or for each group of similar machines, a Nominal Ledger Control Account, a Works' Order Ledger Control Account (which may conveniently be called Work in Progress Account), a Departmental Profit and Loss Account (or a Departmental Production Account) for each productive department, and a General Profit and Loss or General Production Account.

It must be remembered that no capital expenditure enters into cost of production, and thus no accounts will be found in the cost books dealing with any assets. So soon, however, as an asset is consumed in whole or part (e.g. material used, depreciation of plant, &c.) so the value that has been consumed must appear in its appropriate account in the General Cost Ledger ready for transfer to the account in the Works' Order Ledger of the job or jobs to which it is right that it should be allocated.

Opening the Cost Books.

It may be reasonably assumed that in more than 99 per cent. of the cases where it is decided to instal a costing system and to keep cost books on a proper double-entry basis the work of the factory is already in full swing and there are a number of partly finished jobs in the shops. It becomes necessary, therefore, to value the work that is in progress. If the cost books are started at the beginning of a financial period this valuation will be available, having been already made for Balance Sheet purposes. If no costing system has been run previously, the valuation will at the best be an estimate, but even if the cost of each job in progress is estimated it is better to use it for opening purposes than to ignore the work in progress altogether. If the cost books are being started in the middle of a financial period it is advisable to have detailed values (i.e. Wages, Materials, and Oncost) placed upon each incomplete piece of work in the shops, and in order that a clean start may be obtained the valuation should be made and the cost books opened as at the end of a wages period, that is, at the finish of that day in the week to which wages are made up. (It is unusual, in fact, in a factory of even moderate size it is impossible, to pay on, say, a Friday all the wages that have been earned up to the close of work on that day, and, therefore, it is the practice to calculate the wages, i.e. make them up, to, say, the Wednesday and pay them on the following Friday.)

Where the cost books are opened in the middle of a financial period, however, the running of them for the remainder of that period must be considered as in the nature of a trial trip, for it will be found to be next to impossible to obtain satisfactory starting figures in respect of the oncost expenditure.

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The first step in opening the cost books is to start in the General Cost Ledger a Nominal Ledger Control Account and by means of Journal entries to credit thereto and to debit to the appropriate accounts in the same Ledger the total values in wages, materials, and oncost of the work in progress, the oncost values being debited first to General Oncost Account and then to the proper Departmental Oncost and Machine Rate Accounts. Next, Journal entries are made transferring from the Wages, Materials, Oncost, and Machine Rate Accounts to the accounts which will have been opened in the Works' Order Ledger, the details of the work in progress valuation. One account is necessary in this latter Ledger for each Works Order.

At the end of each week Journal entries are made crediting the Nominal Ledger Control Account and debiting Wages and Materials Accounts respectively with the totals of the gross wages earned as shown by the weekly pay-roll and of the weekly summaries of materials issued. Reverse entries will of course be made in respect of material returned. Thereafter these accounts are cleared direct to the various Works' and Standing Order Accounts by Journal transfers of the allocations for the week of wages and materials—two of the loose ends already referred to.

The treatment of the oncost expenditure differs from that accorded to wages earned and materials used, because, as it will be remembered, it is not the actual expenditure that is being allocated but an estimated expenditure upon an estimated basis. The actual oncost expenditure as shown by the financial books is credited monthly to the Nominal Ledger Control Account and debited to General Oncost Account, from which in turn it is transferred and debited to the various Departmental Oncost and Machine Rate Accounts on the bases already decided upon. The Departmental Oncost Accounts for service charges are in turn immediately cleared by transfer of the total amount to the other Departmental Oncost Accounts on the basis of the consumption of the services by the various departments. Thereafter, transfers are made from the Departmental Oncost Accounts to the various Machine Rate Accounts of those portions of the departmental oncost charges which are peculiar to the machinery. At this stage the whole of the oncost expenditure for the month (including the reserves for depreciation, bad debts, &c.) is spread over the Departmental Oncost Accounts in respect of the productive departments of the factory and over the various Machine Rate Accounts. On the credit side of these Oncost Accounts there will already appear the oncost and machine oncost which will have been debited to the Works' Orders that have been completed during the period, or, if Works' Orders are oncosted and machine oncosted weekly, the credits will represent the whole of the oncost that has been recovered. In this latter case the balances on these accounts will represent the amounts that have been either over or short recovered on each account up to date, and will indicate how near to accurate the man-hour and machine-hour rates have been and whether or not any alterations in these rates are called for.

When a job is completed and the final cost of it has been ascertained, the account for it in the Works' Order Ledger must be closed and the

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method of closing will depend upon the policy of the business. It may be, as already indicated, that it is not considered desirable that the cost office should be aware of the amount of profit or loss that is made upon each Works' Order, and in such a case the closure will be made by transferring the total cost of the job to its appropriate Departmental Production Account in the General Cost Ledger. At the end of the financial periods these Departmental Production Accounts will be closed by transfer to the General Production Account, the balance on which will in its turn be transferred to the Nominal Ledger Control Account. To this account also at the end of the financial period will be transferred all amounts short or over recovered on the Departmental Oncost and Machine Rate Accounts, and there will remain open on the General Cost Ledger only the two accounts—Nominal Ledger Control Account and Work in Progress Account—whose balances will be equal. (The Work in Progress Account, as already explained, is the Works' Order Ledger Control Account, and as will have been gathered, receives its debits and credits by means of the posting from the Journal of the monthly totals of the Works' Order Ledger columns.)

Where it is desired to show in the cost books the profit or loss on each Works' Order, it will be necessary to open, in the General Cost Ledger, a Sales Account for each of the departments and to credit thereto by means of a Journal entry (which will at the same time debit the Nominal Ledger Control Account) the monthly value of the sales ex each department. As the goods manufactured under each Works' Order are sold, the selling price will be debited to the Departmental Sales Account and credited to the Works' Order Account, the balance on which will thereafter be transferred to the appropriate Departmental Profit and Loss Account in the General Cost Ledger. The balances on the Departmental Profit and Loss Accounts will be transferred at the end of the financial period to the General Profit and Loss Account, and this latter account, together with the Oncost Accounts and the Machine Rate Accounts, will be closed by transfer of the balances thereon to the Nominal Ledger Control Account, the balance on which will then be equal to the balance on the Work in Progress Account.

As mentioned in a previous article, no Cost Accounts are worthy of the name which do not reconcile with the financial books of the business, and by use of the methods described above it will be possible to obtain an exact agreement between the balances shown on the financial Profit and Loss Account and the cost Profit and Loss Account if to the latter (if it be a profit) there be added any amounts over recovered on oncost and if there be deducted any amounts under recovered on oncost and those items which have been excluded from cost because they are in fact appropriations of profit.

The above methods of closing the cost books are applicable where goods are made to order, but a slightly different procedure will be necessary in cases where goods are made for stock. In such a case

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the total cost of production will be transferred from the Works' Order Account to a Departmental Production Account, which will be credited with subsequent sales, and also, at the end of the financial period, with the cost of the goods remaining in stock. The balance on the Departmental Production Account will then represent the profit on the goods sold and will be transferred to the General Profit and Loss Account. When the cost books are closed there will then remain on the Production Account an amount representing the cost of manufactured stock on hand, and the balance on the Nominal Ledger Control Account will be equivalent to that plus the value of Work in Progress.

Where articles made for stock are subsequently used in production, or where articles are made by one department for use in the production of another department, the credit to the Production Account of the first department and the debit to the second department will be at cost price; but in order that the first department may not suffer thereby and the second benefit, a transfer should be made between the Profit and Loss Accounts of the two departments to give a reasonable rate of profit on the transaction to the first department. The object of thus transferring at cost price is to obtain a true cost to the business of producing the final article, and the object of the transfer between the Profit and Loss Accounts is to give each department its fair share of profit on the sale.

Such, then, is a double-entry system for keeping cost books, and though it may, on reading, seem complicated, it will be found to work smoothly in practice. It provides an absolute guarantee to the manufacturer that the whole of his expenditure on Revenue Account is caught up in his costs, and it will provide him promptly with that information which is essential to him if he is to have a chance of running his business efficiently.

Statistics.

There is a wealth of other information on production, lost time, wastage of material, scrap, &c., all arising out of an efficient costing system, which is invaluable to those in charge of the destinies of a manufacturing concern. It is information which can be supplied daily as the work progresses and before cost figures of any value can be submitted to the management. It is the function of the up-to-date factory accountant to supply that information in such a shape that the manager can see at a glance those matters that require his attention each day. No manager has time to wade through a welter of figures to pick out the salient points—he should have the facts and figures put up to him in such a manner as will make it possible for him to manage his factory from his office chair. No hard and fast rule can be laid down here on these statistics, for no two businesses call for the same treatment—each must be dealt with according to its own requirements. Let it suffice to say that the greatest value of an efficient costing system does not lie in the fact that it shows what has happened but in the fact that it shows what is happening now.

The Principles of Costing.

Stocktaking.

Before passing from the subject of costing, it may be well to mention one other matter which, although not strictly a part of a costing system, is yet very closely related thereto. The practice of taking stocks of materials annually is out of date and has been superseded by "continuous stocktaking," under which, as is implied by the term, stocktaking is going on all the time. The procedure is for a man or men, acting under the Stores Accountant, to check the stock of certain classes of material each day. The actual quantities in stock are listed, as are also the quantity balances shown by the Bin Cards and Stores Ledger Accounts. If the records have been made accurately the three will agree, but, if they do not agree, investigation must be made to trace the error and the necessary action taken to prevent its recurrence. It will happen at times that the stock deficiencies cannot be traced, and in such cases the values should form a charge to the Departmental Oncost Account of the stores because the loss is due to inefficient store-keeping. Sufficient staff should be engaged upon this "stock audit" to ensure that all materials are checked at least four times a year, and the result will prove that the book stocks as shown by the Stores Ledger Accounts may be safely accepted for all purposes. Some of the advantages of continuous stocktaking over annual stocktaking are that mistakes in the records come under review while still fresh; that the staff engaged upon the handling and recording of stores is impressed with the necessity for care and accuracy; that pilfering from stores is more quickly brought to notice; and that the disorganisation and loss of time caused by annual stocktaking are avoided.

The Prize Essay Competition.

The Editor has much pleasure in announcing the results of the first Prize Essay Competition. In the Final Division, the 1st Prize is awarded to Mr. E. J. Foster, 28 Macfarlane Road, Shepherds Bush, W., for an excellent treatise on the subject of "A System of Bookkeeping from Original Documents" and books to the value of £2 2s. will be forwarded to him. In the Intermediate Class, the 1st Prize of £1 1s. in books is gained by Mr. B. S. Pears, of 27 Beaumont Road, Leicester, for his exceptionally good essay on "The Best System of Recording and Paying Wages with a View to Costing," Mr. Gilbert Taylor, of 27 Wellington Road, receiving honourable mention. The number of entries for the first competition was very encouraging, and much of the work sent in was of a high order of merit. It is a noticeable fact, however, that the majority of the entries came from the provinces, and the Editor wishes to urge London students to compete, and not be behind their provincial rivals. There is undoubtedly much advantage to be gained by entering for these competitions, as the subjects chosen are likely to be of great use to students in their examinations. The winning essays are printed in another column.

The subjects for October are :—

Intermediate.—The best description of bankruptcy proceedings from Petition to Discharge.

Final.—The best essay on Cheques and Bills of Exchange.

The Fundamentals of Accountancy.—VI.

By Lawrence R. Dicksee, M.Com., F.C.A.

(Sir Ernest Cassel Professor of Accountancy and Business Methods in the University of London).

There are three distinct ideals as to what constitutes Profits and Professor Dicksee describes and compares them in his article this month. He also deals with the treatment of Wasting Capital Expenditure.

XXI.—The Net Profit.

The Net Profit (sometimes called Net Revenue) of an undertaking is represented in theory at least by an actual increase in the wealth of the undertaking that has resulted from the transactions upon which it has been engaged, which will be confirmed in the Balance Sheet (which summarises all the Ledger balances not included in the Revenue Account) by a corresponding improvement in the financial position, represented by an increase of assets or a decrease of liabilities, or partly by the one and partly by the other. The young articulated clerk will find it convenient even at this stage to recognise that there are three distinct ideals as to what constitutes "profits."

The theoretical, or economic, view is (as already stated) that every increase in wealth is a profit, and every diminution of wealth is a loss. This is sound enough so far as it goes, but it necessarily involves treating as a profit any casual increase that may have occurred in the value of fixed assets, and as a loss any casual decrease that may have occurred in the value of fixed assets. The current marketable value of property that is not intended for immediate realisation, but is intended for use in its existing form as a profit-earner, is of no very great importance to the business man. On the other hand, it confuses his ideas of working results, if profits or losses arising from fluctuation is in the value of fixed assets (i.e. Capital profits or losses) are mixed up with working results, i.e. Revenue.

The legal view goes to the other extreme. When the law necessitates a clear distinction being made between Capital and Income (e.g. in the administration of a trust, where different persons are entitled to Income and to Capital in succession) it rigorously excludes from the Income (or Revenue) Account all fluctuations in the value of capital assets, with the result that when ultimately the administrators of the trust have to account to those entitled to capital, the amount they are liable then to produce is the original capital *plus* or *minus* fluctuations in the value thereof. The system tends towards producing uniformity of income during the continuance of the trust only by throwing all variations upon the capital.

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The practical, or business man's, view represents something in the nature of a compromise between these two extremes. It ignores increases in the value of fixed assets, on the ground that these increases may not be permanent and in any event are not recurring, while in the nature of things they cannot be conveniently divided in money as profits inasmuch as they have not been realised. On the other hand, he usually aims at charging against Revenue any known shrinkage in the value of fixed assets that is no mere temporary fluctuation, thus withholding from distribution as profits a sum of money equal to the estimated wastage in the value of fixed assets, and by capitalising that sum he aims at always retaining in hand assets of sufficient aggregate value to represent the original capital.

XXII.—Withdrawals of Profits.

If profits were determined according to the economist's ideal, it would be found that the amount of the money actually taken out of the business from time to time for distribution among the proprietors would show little or no correspondence between the excess of cash receipts over cash payments during the corresponding period; and even if there were a generous margin of Working Capital to tide over temporary inequalities, the general tendency would be to retain unnecessary sums of money in the business in times when the value of fixed assets was falling, and to pay too much money out of the business in times when the value of fixed assets was rising. Such an arrangement may accordingly be set aside as unworkable in practice.

The legal method, on the other hand, ensures a close correspondence between the amount of Net Profit shown to be available for distribution and the excess of current receipts over current payments; but it provides no assurance that the amount retained will be even approximately sufficient in value to provide for the ultimate repayment of capital received, and unless the fixed assets have been very carefully chosen, it does not very effectively provide for a continuance of Revenue Receipts in bad times as well as good.

The third method does not really pretend to actually ascertain the true Net Profit for the period under review so much as to ascertain a minimum sum that may in any event be distributed without jeopardising the future. It accordingly keeps upon the safe side all through, bringing nothing to the credit of the Revenue which has not either already crystallised into the receipt of money or may at least be expected so to crystallise within a moderate period of time, and debiting Revenue not merely with actual payments and liabilities in respect of current expenses that still remain unpaid, but also with provisions to cover any loss that may arise hereafter through the failure to collect outstanding earnings, and further provisions to cover any serious inequality in Revenue Expenditure extending over a long term of years. The significance of this last provision is explained in the following paragraph.

XXIII.—Wasting Capital Expenditure.

In the nature of things, most of the fixed assets acquired by an undertaking as a result of Capital Expenditure will not prove useful

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as profit-earners for ever, but only for a limited period of time. It follows therefore that, in so far as this is true, such expenditure is not strictly speaking Capital Expenditure at all, but rather Revenue Expenditure. By the time these particular items of equipment have to be discarded as no longer suitable at the latest, their cost must necessarily be charged against Revenue because no surviving value remains. In Section VII it will be shown that certain undertakings actually deal with wasting Capital Expenditure very much upon these lines in practice, but that in ordinary business concerns the practical effect would be that the charge against profits over so short a period as one year would fall exceedingly unequally. Accordingly, the course more usually followed is to treat the whole amount of the ultimate loss as a sum chargeable against the Revenue of a period represented by the whole of the time that the item of equipment is in use, spreading the total charge over the successive years in an equitable manner, or at least in a manner which approximates to equity sufficiently for all practical purposes. Upon this principle, accordingly, each successive Revenue Account is called upon to bear (i.e. to be debited with) a proportionate part of the cost of fixed assets, representing the actual wastage due to the use that has been made of the fixed assets during that period. This is usually spoken of as "providing for depreciation," and this subject will be further considered hereafter under that heading (Section VIII).

The Cost of Living and the Coal Strike.

At the present time the one topic of paramount importance is the possibility of avoiding the threatened strike, and by the time we go to press in all probability the die will be cast for better or for worse. It does not need an expert in economics to prove that if the strike does come it spells disaster to us as a nation. We are told that in any case the prices of food must rule higher during the coming winter, and statistics recently published show that the rise is taking place even *before* the winter arrives. This is due very largely to the removal of the control that was placed upon all foodstuff during the war in order to eliminate profiteering, and in effect the prices of food were kept below their natural economic level as compared with other commodities.

In proof of this, it may be pointed out that whereas food is about two and a half times dearer than it was in 1914, textiles are four times dearer.

The effect of a strike must be dearer food, and this must also mean great and dire hardship for people who already are almost bankrupt owing to the high cost of living.

Mr. J. H. Thomas, M.P., President of the Trades Union, pointed out in his Presidential address at Portsmouth recently, that "only an optimist could find occasion for anything but apprehension to-day," and that the coming winter will in many respects be the hardest for a great number of years, and there are already thousands of unemployed.

Audit Programmes and Procedure—VI.

By Andrew Binnie, F.C.A., C.A.

In the following article Mr. Binnie describes the steps the auditor of a company should take to verify Debenture Capital, Reserves, Profits prior to Incorporation, Preliminary Expenses, Underwriting Commission, Discount and Interest during construction.

Debenture Capital.

If there be various classes of Debentures, such as Mortgage Debentures or Debentures, or First and Second Mortgage Debentures, or First and Second Debentures, each class should have a separate account in the Ledger, and be distinguished in the Balance Sheet. The Ledger balances should be agreed with the aggregate of the individual balances as extracted from the various Registers of Debenture Holders. The counterfoils of the Debentures or Debenture Certificates issued may be available for examination, but Debentures are not infrequently printed and issued without any counterpart. In any case the Minute Book should contain particulars of the Debentures which have been sealed and issued. The auditor should see that the consideration for the Debentures has been duly received. The auditor may also compare the Debenture Transfers with the Transfer Register, and check the postings from the Transfer Register to the Register of Debenture Holders if deemed necessary. Where the Debentures are paid off, the cancelled Debentures or Debenture Certificates should be produced to the auditor. If the Debentures have been issued at a discount, or a commission paid on the issue, the total of the Debentures should appear on the *Dr.* side of the Balance Sheet, and the discount or commission on the *Cr.* side, until it is written off (pursuant to Section 90 of the Companies (Consolidation) Act, 1908). The discount or commission is a charge of a capital nature, but as a matter of sound finance should be written off over a term of years. The conditions attaching to the Debentures, or contained in the Debenture Trust Deed, if any, should be carefully examined, and care taken that they have been complied with so far as they affect the accounts. See that the remuneration payable to the Trustees for the Debenture Holders has been paid or reserved in the accounts. Inquire whether the Debentures have been registered at Somerset House pursuant to Section 93 of the Companies (Consolidation) Act, 1908.

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The Register of Mortgages and Charges kept by the company should also be inspected to see that no charges have been given which do not appear in the Books of Account.

In view of a recent decision (*Wall v. London & Provincial Trust, Ltd. Accountant*, 17th July 1920) it is doubtful whether a profit on Debentures bought in the market at a discount may be treated as profit available for dividend. (See also "Borrowed Moneys," page 157, July issue.)

Debenture Redemption Fund.

See by what conditions the fund is governed (whether, for example, it is necessary that the fund should be specifically invested), and see that they are complied with. (See also "Borrowed Moneys," page 157, July issue.)

Reserves.

Reserves may be specific or general. They may arise out of a provision made out of profits for depreciation, or to redeem Debentures or create a Sinking Fund, or may be of a general character created out of profits, and differing only in name from the "carry forward" of undivided profits, as the balance remaining at the credit of Profit and Loss Account, after deducting dividends, is commonly called. Sometimes profits of a capital nature, such as a gain on realisation of a freehold, are carried to Reserve. The auditor should ascertain what provisions there are in the Articles of Association relating to the making of reserves, and see that they have been duly carried out. Without such provisions it might not be competent to the directors to make any reserves out of profits, which would have to be applied as directed by the Articles. From the Articles the auditor should also ascertain whether there is any restriction on the profits which may be divided by way of dividend, for example, whether profits of a capital nature may be divided or not, or whether there is a stipulation that such profits be carried to a reserve. The auditor should also see that reserves set aside to provide for depreciation are not utilised for the payment of dividends, whether in cash or by way of bonus shares. If there is a provision in the Articles that the reserve is to be specifically invested, he should see that the provision is complied with. The different classes of reserves should be kept in separate accounts in the Ledger, even if for any reason not set out separately in the accounts. If there are any provisions in the Articles to the effect that the reserves are to accumulate at interest, see that they are complied with. Reserves of another character known as "Secret Reserves" may sometimes have been created by writing down Stocks or other floating assets, or over-estimating liabilities not capable of a precise computation. Reserves of this type were more common in the

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days when limited companies were few in number, and business mainly in the hands of private traders. As reserves of a precautionary nature making for financial stability they are not objectionable, where made in good faith. On the whole, however, it is preferable that reserves be created openly in the usual way by a transfer from profits. Where reserves are distributed among the shareholders by way of Bonus Shares, see that the Reserve Fund clause in the Articles authorises the payment thereof of a bonus or dividend to members; that the Articles authorise the satisfaction of a dividend or bonus by the issue of paid-up shares, for *prima facie* dividends must be paid in cash; that the members have been given an unconditional right to take the dividend or bonus in cash, or that a proper contract has been filed; that the company has unissued shares sufficient to satisfy the bonus or dividend.

Of recent years it has been suggested that reserves may be created by writing up assets which have increased in value, and the reserves so created divided by way of Bonus Shares. It is difficult to see what consideration passes for the shares. In the case of deflation of the assets the share capital cannot be written off, and the assets written down, except by a scheme for reduction of capital approved by the Court or by a liquidation and reconstruction. This inflation of assets seems, therefore, to be unsound in principle. The auditor should see that the transaction is clearly set out in the accounts.

Profits prior to Date of Incorporation.

Where a business is acquired and converted into a limited company, and the purchase price includes profits from a date prior to the date of incorporation, the profits for the first year should be apportioned, and the proportion earned prior to the date of incorporation either written off goodwill or carried to reserve, as such profits are not available for distribution among the shareholders. There appears, however, to be no reason why the proportion of profits made prior to the date of incorporation should not be applied to writing off preliminary expenses, costs *re* leases, and similar outlays of a capital nature. On questions of this kind the auditor will do well to take the advice of the company's solicitor, for circumstances vary in different cases. If there happened to be a loss prior to incorporation, then, to be consistent, it should be added to goodwill. This suggests that the deduction of the profits from goodwill is unsound in principle, since it leads to the absurd conclusion that if a business has been making profits, the goodwill is worth less than if it has been working at a loss.

Preliminary Expenses.

These expenses usually include law costs, accountants' charges, brokers' fees, stamps and fees paid on registration of the company,

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the cost of preparing, and the expense of printing the Memorandum and Articles of Association, Share and Debenture Certificates, and of printing, circulating, and advertising the prospectus. (Underwriting commission on Debentures or Shares or discount on Debentures should be set out separately in the Balance Sheet until finally written off, pursuant to Section 90 of the Companies (Consolidation) Act, 1908. Sometimes the promoter of a company pays all the preliminary expenses up to the date of allotment, and in consideration of doing so is paid a lump sum. In such cases the preliminary expenses should consist of the lump sum paid, together with any similar charges incurred by the company, and not included in the agreement with the promoter, or expenses incurred after the date of allotment. The expenses should be vouched by reference to the various bills, costs and charges and official receipts, and the auditor should see that the outlays have been approved by the Board, and are properly chargeable to the company, and in accordance with the agreement entered into by the company. He should see the agreement with the promoter, and satisfy himself that the company has not paid anything which, under the agreement, should have been paid by the promoter. Technically, preliminary expenses are a charge to capital, but outlays of this description are of a purely nominal value, and as a matter of finance should be written off out of profits as quickly as possible.

Underwriting Commission on Shares and Debentures and Discount on Debentures.

These outlays are of the nature of preliminary expenses, but pursuant to Section 90 of the Companies (Consolidation) Act, 1908, the total amount, or so much as has not been written off, must be disclosed on the face of the Balance Sheet until the whole amount is written off. The auditor should see that the payment of Underwriting Commission on the shares is authorised by the Articles of Association (Section 89 of the Companies (Consolidation) Act, 1908), that the payments are, in fact, chargeable to the company, and the particulars correctly disclosed on the face of the Balance Sheet.

Interest during Construction Charged to Capital.

Parliamentary Companies are usually authorised to pay interest on capital to their members, and the interest is regarded as permanent Capital Expenditure. Section 91 of the Companies (Consolidation) Act, 1908, empowers companies to pay interest out of capital in certain cases, and charge it to capital, provided that :—

- (1) No such payment shall be made unless the same is authorised by the Articles or by special resolution.

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- (2) No such payment, whether authorised by the Articles or by special resolution, shall be made without the previous sanction of the Board of Trade.
- (3) Before sanctioning any such payment, the Board of Trade may, at the expense of the company, appoint a person to inquire and report to them as to the circumstances of the case, and may, before making the appointment, require the company to give security for the payment of the costs of the inquiry.
- (4) The payment shall be made only for such period as may be determined by the Board of Trade; and such period shall in no case extend beyond the close of the half-year next after the half-year during which the works or buildings have been actually completed or the plant provided.
- (5) The rate of interest shall in no case exceed four per cent. per annum, or such lower rate as may for the time being be prescribed by order in Council.
- (6) The payment of the interest shall not operate as a reduction of the amount paid up on the shares in respect of which it is paid.
- (7) The accounts of the company shall show the share capital on which, and the rate at which, interest has been paid out of capital during the period to which the accounts relate.
- (8) Nothing in this section shall affect any company to which the Indian Railways Act, 1894, as amended by any subsequent enactment, applies.

Apart from this enactment, the practice of adding interest on capital to capital outlays during construction or development and treating the interest as income often obtains, as, for example, in the case of Tea Estates. The process, although it takes money out of one pocket as capital, and passes it into the other as income, is defensible in theory, but it is not prudent to apply the principle to undertakings of which the ultimate success is not assured, and in view of Section 91, legal advice should be taken in the case of any company which is paying interest out of capital without complying with the section.

The Debt of Honour.

It is distressing to note that there are still a very large number of disabled officers and men who have not yet been able to find billets. Dr. McNamara recently reported that no less a number than 142,600 men, 18,200 of whom were disabled, and 14,293 ex-officers are still without work.

We should like to appeal very strongly to the patriotism of our readers to do all they can to give employment to these brave fellows. In Germany a law has been passed making it compulsory for every employer of labour to give work to a certain percentage of disabled men—it would almost seem that something on the same lines is necessary here in England.

The Money Market.—IV.

By J. H. McCall, F.S.A.A.

In his fourth and last article Mr. McCall deals with the relationship of banks, other than the Bank of England, to the Money Market.

1. *The Origin of Banking.*—Many writers appear to make a mystery of banking by drawing fine distinctions as to what may be considered as “true” banking. The primary business of banking resolves itself into what is easily understood by all, the practice of borrowing and lending money. The Jews were the pioneers of the money lending fraternity, and were followed by the Lombardy goldsmiths, who came to England in the 14th century, and started private banking. During the 17th century the goldsmiths of England took up the business of banking, receiving deposits from merchants, and giving a small rate of interest. They made a profit by lending to the King at a high rate of interest. The refusal of Charles II to repay loans ruined many banker goldsmiths and merchants. On his death claimants were allotted stock to the extent of 50 per cent., thus bringing into existence the National Debt.

In 1694 a Bill was passed creating the Bank of England, and in 1708 a further Act was passed, giving it the monopoly of Joint Stock Banking. This monopoly was partially given up in 1826, and wholly in 1833. The following year the London and Westminster Bank was started—many others quickly following.

2. *The Development of Banking.*—During the last fifty years there has been rapid development in the direction of branch banking and great amalgamations. The private country banks have been absorbed by joint-stock bankers; small London banks have been absorbed by larger provincial banks, and in addition there have been many amalgamations between the great Joint Stock Banks. These movements are generally supposed to be in the interest of economy, the general effect, however, is to extinguish competitors and to create something of a monopoly, which is making itself felt as a powerful influence upon the money market.

3. *The Functions of a Banker.*—The business of banking has widened considerably of late years, and may be classified into the following functions:—

- (a) To issue notes subject to the restrictions of the Bank Charter Act, 1844.

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- (b) To receive money from customers on deposit or on current account.
- (c) To discount bills of exchange and promissory notes.
- (d) To lend money to individuals, firms, companies, corporations and brokers.
- (e) To assist companies and corporations in the issue of stocks and shares.
- (f) To act as the financial agent for customers with regard to the purchase and sale of securities.

The main business is classified under (b) and (d), and the most elementary study will reveal the fact that banking is merely the business of borrowing and lending. The bank acts as a middleman, lending out at a profit what it has borrowed. The share capital of a bank is not very important in this connection, and it is interesting to note that the capital of a bank computed for purposes of Excess Profits Duty is a minus figure, that is, it has no capital of its own employed for the purpose of making profits. It is important to remember this, as it cuts at the roots of many fallacies concerning the supposed wealth of the banks. Their wealth really consists in the ability to use freely the deposited capital of their customers.

4. *The Sources of a Banker's Profits.*—Apart from sundry charges made by a bank for services rendered, the main source of profit is the difference between the interest earned on money lent by it, and the interest allowed to depositors. Banks are out to make as much money as possible, and to take full advantage of every opportunity. Interest on deposit accounts is generally one per cent. below the Bank rate, and interest charged on overdraft generally one per cent. above and even more. The two per cent. margin does not appear large, but that is only half the story. A large proportion of the funds available consists of customers' current account balances, on which no interest is allowed. It must not be assumed, however, that the customer does not receive any benefit by depositing his money even though no interest is allowed. The services rendered by bankers to the public are numerous, and include:—

- (a) The convenience and safety of depositing surplus cash, in some cases with interest accruing.
- (b) The convenience of making remittances by cheques and drafts.
- (c) The collection of cheques, dividend warrants, &c.
- (d) The rendering of financial assistance by means of overdrafts, the discounting of bills, or advances on shipping documents.

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- (e) The advantage of obtaining circular notes and letters of credit.
- (f) The acting as exchange brokers and the telegraphic transfer of credit to branch houses abroad.

5. *Relation between Banker and Customer.*—I have stated that the business of banking is that of borrowing and lending money. This is emphasised by the general relation between banker and customer being that of Debtor and Creditor. The banker enters into an implied contract when he accepts a deposit to repay the amount in the manner directed by the customer. Strictly speaking, it is misleading to state on a Balance Sheet the banker's indebtedness as "Cash at Bank," or to speak of having money in the bank. The depositor has merely lent his money to the bank, certainly under very favourable conditions as to its repayment.

6. *The Banks and the Market.*—We have seen that the effect of exercising their functions is to place the banks in the position of being the greatest agency for bringing loanable capital to the money market. They have vast sums of money which must be put out at interest, as all money lying idle would mean a loss of profit. They are particularly concerned with the rates prevailing on the market, and in consequence of their powerful position have no doubt considerable weight in those financial circles which practically govern the market.

Whether it is beneficial or otherwise that the banks should wield this powerful influence or not will be answered in the course of history, but we may assume that the power of the banks has never been seriously curtailed by outside competition. It will be as well to illustrate one phase only of the manner in which the finance of this country is influenced by the banks. It will be within the recollection of everyone that the decision of the Government to place the obligation of building a large number of houses upon local authorities created somewhat of a deadlock on the financial side. Local authorities quickly discovered that very little financial help would be forthcoming along the usual channels, and strong representations were made to the Treasury that the financing of housing should be done by the Government itself. The Treasury appointed a special committee to consider the best means for raising the necessary moneys. The committee was constituted largely of bankers and in its findings strongly recommended that the local authorities should themselves endeavour to raise money by the issue of Housing Bonds or by the issue of Stock upon the market.

The arrangements for the issue of Corporation Stock at present obtaining are somewhat curious, the banks and brokers actually place the stock upon the market, but the Treasury regulates the order of coming upon the market, and the amount to be raised by each corporation. The Treasury acts in its decisions upon the advice of that same advisory

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committee, so that it can fairly be claimed that the prepondering influence is that of the banks.

There are divers opinions as to the effect of real competitive banking, it is sufficient for the writer to indicate one or two ways which have been suggested from time to time. The establishment of a national bank has been advocated, this has been thought by some to merely give in effect another name to the Bank of England. It does seem, however, that given a national bank with branches in every town worked in conjunction with the municipalities, there would be set up a powerful rivalry to the existing private banks. Had this been in existence at the present time, it is fairly safe to assume that the monetary difficulties of local authorities in relation to the building of houses would never have arisen. This, however, is mere speculation, the object of the writer is to point out that the power of the banks is increasing day by day, owing to the enormous increase of their business and the absence of any real competition. Every movement of the market is keenly watched on their behalf, and it is safe to assume that they are consulted upon every great financial undertaking. It is curious to note that whilst municipal issues are rationed or regulated by the Treasury, there are no restrictions placed upon the raising of capital for ordinary commercial purposes.

It has been the object of the writer of these articles to show the various influences at work on the money market at the present day, and how the financial position of the Government has really dominated the market for a considerable time past. Much hostile criticism of the Government's methods has appeared in the papers, the result of which has been to deter the Government from raising moneys by further issues to the public. The loan for the construction of houses has apparently been abandoned by the Government, but is actually being issued under the guise of corporation stock. The real benefit of this method, however, lies in the fact that the issue is made in such sums and at such intervals as is considered advisable by those experts who are watching the market. Whilst the demands of the Government are so great, it seems fairly safe to assume that the bank rate for discounting bills will be high. There seems to be one theory which has almost been exploded, that is, the relation of the specie points to foreign exchanges. The specie points are determined by the cost of transmitting gold from one country to another. It has been assumed that if the ordinary methods become too expensive, then a debtor would obtain gold and settle his debt in another country by the transmission of gold. The restrictions, however, put upon the transmission of gold, together with the difficulty of obtaining it in most countries, have made this method of settlement a very remote one. Consequently, the movement of gold as a corrective influence on the rate of exchange may be dismissed as a theory only.

Income Tax Practice—VI.

In the last issue some of the main fundamentals of the Excess Profits Duty were dealt with. As with income-tax, there are many variations to meet particular circumstances, and a few of these are considered in the following article.

Excess Profits Duty (continued).

Succession.

The question of succession to an existing business is of great importance in its effect on the pre-war standard. As previously shown, a purely new business has to adopt a pre-war standard of a percentage on the capital, which generally is such a small standard that practically the whole of the profits become excess profits. When, however, a business has been purchased or otherwise succeeded to, the law allows the successor to be treated as if there had been no change of ownership, subject to the restriction that the pre-war standard of the previous owner must be so adjusted as to make it comparable in basis with the Accounting Period profits of the successor.

Assume that A. succeeded on 1st January 1920 to a business carried on by B., and that A.'s capital was £15,000, and the profits of the year to 31st December 1920 were £4,500, whereas the capital and profits of B. were as follows, the capital being that at the beginning of the year :—

		Capital	Profits
		£	£
Dec. 1911	.. .. .	5,500	2,400
" 1912	.. .. .	6,500	2,700
" 1913	.. .. .	8,000	3,200

Now, if A. were treated as a new business, his standard would be on £15,000 at 13 per cent. = £1,950, but, by treatment as a succession, the standard would be that of B., together with an allowance for increased capital thus :—

		£
1912	.. .. .	2,700
1913	.. .. .	3,200
		<hr/>
		2)5,900
		<hr/>
		£2,950
		<hr/>

The average pre-war capital would be :—

		£
1912	.. .. .	6,500
1913	.. .. .	8,000
		<hr/>
		2)14,500
		<hr/>
		£7,250
		<hr/>

The increase of capital would be £15,000 - £7,250 = £7,750 at 13 per cent. = £1,007.

Income Tax Practice.

Treatment as a succession would, therefore, give a very much decreased liability.

A very common case of change of ownership is by conversion of a firm to a limited liability company, and this is an instance of where the provision applies that the basis of the old pre-war standard must be made to accord with that of the Accounting Period profits of the new company, as the standard of the firm would be arrived at before charging salaries, &c., of partners, whereas the company's profits would be, after charging directors', &c., fees, paid to the late partners. Assume that a firm A. B. & C. was converted to a limited company, A. B. & Co., Ltd., on 1st January 1920, and that the profits were as follows:—

Year to 31 Dec. 1911	..	..	..	£	4,000
" " 1912	..	..	..		5,000
" " 1913	..	..	..		3,000
" " 1920	..	..	..		10,000

In arriving at the company's 1920 profits a deduction was made for directors' and managers' salaries, &c., paid to A. B. & C., so that it is necessary to eliminate from the pre-war profits the remuneration paid in 1920. Assuming that this remuneration is £2,000, the pre-war standard becomes:—

1911	..	..	..	..	£4,000	—	£2,000	=	£2,000
1912	..	..	..	..	£5,000	—	£2,000	=	£3,000
									2)5,000
									<u>£2,500</u>

It should be noted that this adjustment is not satisfied by merely adding back the 1920 remuneration to the 1920 profits, as otherwise the addition to the £200 allowance where the profits do not exceed £4,000 would be reduced. This addition applies for 1920, when the Accounting Period profits do not exceed £4,000, so that an adding back of the remuneration might take the business outside the allowance.

Directors' and Managers' Remuneration.

The law gives the Revenue a very wide discretion as regards debits for remuneration of directors or any other persons "concerned in the management" of the business in that it authorises, but does not require, the disallowance of the *whole* of the increased remuneration over the amount charged in the last pre-war trading year. In practice, this power is not fully exercised, but is governed by the following rules:—

- (1) Where the recipient is either a substantial shareholder or closely related to such a shareholder the whole of the increase is disallowed.
- (2) Where the recipient has no material proprietary interest or influence the allowable increase is restricted to £2,000, which does not apply to such office held by an individual but to the individual himself.

Now, when the Revenue disallows any excess remuneration, the position is that the employer pays Excess Profits Duty on behalf of the

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employee, so that the law gives power to the employer to recover from the employee the Excess Profits Duty so paid. Assume that a manager was paid £1,000 for the year to 31st December 1913, and £5,000 for the year to 31st December 1920, and that he had no shareholding in the company. Assume also that the company's profits were as follows after charging the remuneration:—

Year to 31 Dec.	1911	..	..	..	£
"	"	1912	..	..	15,000
"	"	1913	..	..	25,000
"	"	1920	..	..	30,000
					85,000

The pre-war standard would be:—

1912	..	..	..	..	£
1913	..	..	..	..	25,000
					30,000
					2)55,000
					£27,500

Now, the Revenue would allow £2,000 of the increase, making the allowance £3,200, so that the company's assessment would be:—

$$£85,000 + £5,000 - £3,200 = £86,800.$$

At 60 per cent. the duty payable by the company would be £52,080, of which £1,800 at 60 per cent. = £1,080 would be paid on the increased remuneration. The company would then recover this £1,080 from the manager, so that the company would deduct £52,080 - £1,080 = £51,000 in arriving at the company's income-tax assessment, and the manager would deduct £1,080 in arriving at his Schedule E assessment. The company would deduct the former sum from the 1920 profits, thus the allowance would be made from the 1920-21, 1921-22, and 1922-23 Schedule D assessments. The manager would be assessable under Schedule E on the income of the year of assessment, so that his 1920-21 assessment would be on £5,000 - £1,080 = £3,920.

Depreciation.

The allowances for depreciation of machinery follow generally those given for income-tax, but provision was made for special depreciation arising from the war. Many assessments for war years are still unsettled, so that it would be advisable to bear in mind the provisions of Section 40 (3) of the 1915 Act, which allows:

- (a) Exceptional depreciation, due to the war, of any plant, machinery, buildings, or any other assets.
- (b) Obsolescence of the above.
- (c) Deferred repairs and renewals.

In the case of (a) the longer hours of work and the impossibility of adequate upkeep and attention created abnormal depreciation, and similarly in (b) machines, &c. were built for special war purposes, and ultimately became obsolete and of no value. With (c) it was in many cases, owing to the difficulty of obtaining labour and material, impossible to repair and renew assets, but the expenditure would have to be made at a later date. In effect, Section 40 (3) allows a *reserve* for repairs, &c.

EDITORIAL.

Stock Exchange Transactions.

PART II.

There is another form of contract in use on the Stock Exchange which is called an "*option*," by which a right is acquired to deal in a specified stock or share up to a specified amount at some determined future date at the price agreed at the date on which the contract is entered into.

There are three kinds of option, viz. a "put," a "call" and a "put and call." The first gives the purchaser of the option the right of *selling* stock and the second the right of *buying* at the agreed price, while the third is a combination of the two and gives the option of either buying or selling (or *not* doing either, if it is not profitable to do so) the stock on the day and at the price fixed.

To make the matter clearer let us assume that a friend of ours in South Africa has sent us some private reliable information regarding a discovery of a new reef of rich ore in a certain gold mine, which when it becomes known on the Stock Exchange will probably cause a rise in the market quotation. We could in such a case approach a broker and inquire the cost of purchasing a "put" option upon, say, 100 of these shares at the present market price of, say, 25s. each, the option to be exercised in two months; the cost of this might be 5s. a share. In due course the good news is announced, and as a consequence the shares rise to, say, 50s. We could then exercise our right to buy those 100 shares at the market price at the time the option was purchased, i.e. 25s.

Similarly, we might learn of some authentic bad news that was coming which would *adversely* affect the price; in which case we could buy a "call" option, enabling us to sell the 100 shares at the *original* price when they have fallen considerably owing to the bad news.

This class of contract, and also that known as "carrying over" stock and paying differences, may very rightly be regarded in the light of "gaming" contracts, and if the contracting parties refused to fulfil their obligations it is more than likely they could not

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be enforced at law, upon the ground that "gaming and wagering contracts" shall be null and void. This does not make the contracts themselves actually illegal, it merely makes them unenforceable. It has been established by several leading cases that in any Stock Exchange contract where it can be shewn that neither of the contracting parties has a real purchase or sale in view but only an agreement to pay differences according to a rise or fall in price, then such contract is not enforceable at law. A broker is not bound to accept every order sent to him, but if the principal is known to him and they have had previous dealings together, even slight delay in *declining* the order would probably amount to the acceptance of the same. Having accepted the order, the stock-broker becomes the agent of the principal and the usual principles of the law of agency apply between them, although by the rules of the Stock Exchange the broker *deals* as a *principal*. There is an implied contract by the principal to indemnify the broker against any loss or liability he may incur on his behalf, even though it can be proved to have been a gaming or wagering transaction (*Thacker v. Hardy*). Brokers are specially cautioned in Rule 58 against transacting speculative business with clerks in public or private establishments without the knowledge of their employers, and the term "clerk" includes manager, secretaries, and mercantile employees of all kinds.

It may sometimes happen that a broker may wish to do the bargain which his principal has instructed him to execute, himself, in which case he *must* disclose the fact to the principal, or, as it is called, "deal fairly at arm's length," in which case the relationship of principal and agent is terminated as regards that particular transaction. Should he fail to make the disclosure the principal has the right to either adopt the transaction and claim any benefit the broker may have made out of it, or to repudiate the contract and claim the return of his money (*Fox v. Mackreth*).

The circumstances of each case will decide the question as to how long an order given to a broker will remain in force—apart from any special instructions to the contrary, an order is considered to be left to the broker's discretion. The broker is bound to send to his principal a Contract Note, under a penalty of £20 for omission, and it is the formal admission of what the agent has done for his principal upon which the latter may rely if desiring to enforce a

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claim against his agent the broker. The note specifies the day for delivery of stock and date of settlement, and usually the name of the jobber with whom the bargain was made, as this is a guarantee to the principal that the business has been transacted in a regular manner.

The broker's commission is also inserted in the contract note, and this is fixed according to a tariff approved by the Stock Exchange Committee. If money is placed in the hands of a broker for investment purposes it is considered to be entrusted to the agent in a fiduciary character to be applied in a particular manner, so that if the money is misapplied by the broker the principal is entitled to follow the money, if it can be traced, and reclaim it, or any property or securities purchased with it.

If a principal fails to pay for any securities bought on his behalf, the broker has a lien on the securities, or he may sell them and claim for any difference in the price.

It is not part of the regular business of a broker to retain his clients' securities and collect coupons, &c., although it is frequently done, and in the absence of any special agreement it often becomes a question as to what is the responsibility of the broker. Naturally, if he does this work gratuitously, his liability is the same as that of any gratuitous bailee, viz. he will be liable only for *gross* negligence, while if he receives payment or reward he will become liable for ordinary negligence.

In our next issue we shall deal, in conclusion, with the Contract between Broker and Jobber, Quotations, the Cover System, the Official Assignee, &c.

Foreign Currency.

The question of foreign currency has been receiving the special attention of the Joint Committee on the Cost of Living, and their recommendations, in order to improve matters, are as follows:—

- (a) Definitely fixing the issue of notes, and gradually reducing the same until the depreciation of British paper currency in terms of gold disappears.
- (b) Cessation by the Government of resorting to Bank Credits to meet expenditure.
- (c) Repayment of the floating debt, or, failing this, to fund it.
- (d) Public control of the banking system of the country.
- (e) Now that the public is used to Treasury Notes, do away with gold currency altogether.

Income Tax Notes and Comments.

In this column Income-tax recent alterations of law and practice are discussed and explained and readers' queries are answered. Arrangements have been made to reply to these queries by post, the replies being published subsequently in the "Journal" under noms de plume. A stamped addressed envelope should be enclosed with the queries and the service is limited to subscribers to the "Journal."

Obsolescence.

For income-tax, a trader has the option of allowance for either renewals or depreciation of plant and machinery, the former being an allowance of the actual loss, and the latter an estimated amount. When a particular machine comes to be scrapped or sold in order to substitute more modern plant, the allowance for renewals gives the actual cost borne by the trader, i.e. the original cost of the old plant, but if depreciation had been allowed in the past it would probably be found that the depreciation had not amounted to the loss borne, i.e. that the cost of the plant written down by the depreciation actually allowed would give a figure exceeding that realised on sale. This difference is the subject of the "obsolescence" allowance. Assume that a certain machine was purchased in 1915 for £1,000, and that depreciation at 5 per cent. on written down value was allowed. The machine was sold in 1920 for £100. The written down value at the date of sale was as follows:—

1915	..	..	..	..	..	1,00
Depreciation allowed 1915-16 at 5%						—
"	"	1916-17	"	..	..	—
						90 3
"	"	1917-18	"	..	..	4
						85
"	"	1918-19	"	..	..	43
						81
"	"	1919-20	"	..	..	40
						£775
						<u>£775</u>

In 1920, new machinery was purchased, and allowance of £775-£100=£675 is made against the 1920 profits, i.e. it falls into the averages of the years 1920-21, 1921-22, and 1922-23.

The basis of allowing ordinary depreciation should be noted. The written down value at the beginning of the fiscal year, or rather at the end of the last trading year prior to the commencement of the fiscal year, is adopted. Assume that plant with a cost of £20,000 was purchased in September 1916, and that depreciation at 5 per cent. was

Income Tax Notes and Comments.

allowed. The depreciation figures would be as follows. It is assumed that additional plant at a cost of £4,000 was installed in July 1918:—

Value 30th September 1916	..	..	..	£	20,000
Depreciation allowed 1917-18 at 5 %	..	..	..		1,000
Value 30th September 1917	..	..	..		19,000
Depreciation allowed 1918-19 at 5 %	..	..	..		950
Additions 1918	..	..	..		18,050
					<u>4,000</u>
Value 30th September 1918	..	..	..		22,050
Depreciation allowed 1919-20 at 5 %	..	..	..		1,102
Value 30th September 1919	..	..	..		20,948
Depreciation allowed 1920-21 at 5 %	..	..	..		1,048
Value 30th September 1920	..	..	..	£	<u>19,900</u>

The New Basis.

Assume the following income of an individual:—

	£
Trade	550
Directors' fees	100
Property	80
Dividends	150
War Loan interest	50
Bank Deposit interest	20

The individual is a married man with two children under 16, and supports an invalid sister.

The liability for 1920-21 would be:—

Sch. D		£	£
	Trade (earned income)	550	
	Less 10%	55	
		<u>495</u>	
	Less Allowance	£ 225	
	Children (2)	63	
	Relative	25	
		<u>313</u>	
Sch. E			182
Sch. D	Directors' fees	£ 100 less 10%	90
Sch. A	War Loan and Bank interest		70
			80
Tax Deducted	.. .. .		<u>150</u>
			<u>£ 572</u>

The tax due would be:—

	£	£	s	d
Trade	182 at 3s	=	27	6 0
Directors' fees	43 at 3s	=	6	9 0
War Loan, &c., interest	47 at 6s	=	14	2 0
Property	70 at 6s	=	21	0 0
Dividends	80 at 6s	=	24	0 0
	150 at 6s	=	45	0 0
			<u>£ 137</u>	<u>17 0</u>

Correspondence.

A Company Secretary's Duties.

(To the Editor of *The Accountants' Journal*.)

SIR,—It is hoped that the following remarks with reference to the article "A Company Secretary's Duties," by Mr. W. H. Fox, contained in the August number of your paper, will be accepted in the spirit in which they are offered, and, of course, without any reflection upon the writer of the article upon which my criticisms are partially based. *En passant*, I might mention that I have been employed in the Transfer Office of one of the largest firms of its kind in England for some years, and my remarks are also based upon the methods in use in this office, and a certain amount of experience I have gained in the course of my employment. Nevertheless, I am quite aware that different firms have different methods and ideas, each perhaps as correct and practicable as any other.

So to proceed :—

1. *Ledger.*

With regard to the form of Register of Members, the *pro forma* given is neither so simple or straightforward as the needs of a busy office require.

(a) *Cash Column*.—I fail to see the necessity for this, and also the relative cash book cross folio.

1. In the case of transfer of partly paid shares, particulars as to the payment of calls received and due should surely be found on the allotment sheets, and entries in the Ledger made as though the shares were fully paid. Should it be the intention not to call up the full purchase price for an indefinite period, Ledgers, &c., should be prepared for the shares, say 10s. paid (or whatever amount is being called immediately or in the near future), and record of the payment of the remaining calls could be kept (so far as the actual Ledger Account is concerned) by the impression of a rubber stamp to this effect on the account of the shareholder concerned as and when the due calls were paid.

2. After the shares are fully paid, the consideration for the transfer does not appear to be of sufficient interest to warrant its inclusion in the Ledger, since the deed can always be referred to if necessary.

(b) *Certificate No. Column*.—In a large office where transfer work is heavy, it would seem that there is likely to be much loss of time in entering such details in the Ledger. A better method, in my opinion, is by card index system, kept by one or more persons, as needs dictate, whose duties are confined to certificates after auditing stage, i.e. they attend to signing, sealing, recording, despatch, and receipts for certificates. Admittedly, the card index entails a little extra work, but it leaves the Ledgers free for the actual "posters."

I enclose a draft of a single page "*Dr. Cr.*" Ledger, which, for simplicity, leaves nothing to be desired. I have posted one or two items to show the method, from which it will be seen that the actual balance to the credit of a shareholder can be ascertained at a glance.

Name of Shareholder *Arthur Henry Jones.* Address *24 Lime Street, London, E.C.* Description or } C.A.
Occupation }

Date of Entry in Register as a Member *24th June 1906.* Date of Person ceasing to be a Member

LLOYDS BANK, LTD.,

38A Victoria Street,
Westminster, S.W.

Particulars of Transfer						Dr.		Cr.		Balance of £1 Ordinary Shares in respect of which a person is a Member		
4/396 (b)		No. of Transfer	Date of Transfer	Date of Registration of Transfer	Transferor or Transferee	Distinctive Numbers of £1 Ordinary Shares	No. of Shares	£1 Ordinary Shares fully paid	No. of Shares	£1 Ordinary Shares fully paid	Total Number of Shares	Total Amount of £1 Ordinary Shares fully paid
Registers of Transfers Folio												
4/1	23742	1906	June 12	1906	June 24	William Arthur Jackson	100,000-100,099			£	100	100
4/1	23743	" 12	" 12	" 24	Henry Wilson	151,601-151,700			100	100	200	200
5/2	30742	Oct. 7	Oct. 18	Oct. 18	William Johnson	151,601-151,700	100	100			100	100

(a) Dividend instructions. (b) Cross fo. (Fo. of holding of Preference Shares.)

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2. *Transfers.*

Re specimen form of transfer.

I was much surprised to find same as requiring completion of "Enemy Declarations" by both Transferor and Transferee, and would point out that such requirements ceased to exist as from 8/6/20. I enclose a copy of the current declaration to be signed by the Transferor or his Broker on his behalf.

3. *General.*

Under examples of special transactions where actual deeds are not produced (paragraph 4), there is no apparent reason why a lady shareholder should be put to the trouble and expense of producing a declaration as to her identity on marriage, since the lodgment of her marriage certificate meets the case equally as well (provided name, description, and address coincide with that registered in the books of the company). For purposes of record, same could be copied or photographed, and such copy preserved in the appropriate file.

Before closing, I should like to be allowed to ask a question, which perhaps you may be in a position to answer, viz. : Has the legality of a share register of members kept on the loose-leaf system ever been doubted or upheld in a Court of Law? Personally, I am a strong supporter of the old system of properly bound Ledgers as received from the makers before an entry is ever placed in them. The disadvantage, of course, lies in the amount of "dead matter" that has to be passed over in the preparation of a dividend after the lapse of a few years, though this, of course, can be modified to some extent by transferring the accounts to a more recent Ledger when the original Ledgers become too sparse of active accounts.

On the other hand, "*loose leaf*" seems to be too closely allied to "*lose leaf*" for the efficient working of a share register, for accidents will happen in the best regulated offices.

The point is undoubtedly one of importance, and may be of interest to your other readers.

I am, Sir, yours faithfully,

C. H. BELL.

[We have submitted the above letter to the writer of the article, and the following is his reply.—ED. A.J.]

1. The Ledger form of Register of Members is intended to avoid extra work, but your correspondent appears to think it would be saved by having a supplementary Ledger and card index as well as the Register of Members! As regards the cash column, your correspondent has apparently forgotten that the Act requires that the Register of Members shall contain a note of the amounts paid up on the shares.

Naturally, the suggestions in the articles are meant to be of a general character, and any particular company which requires special information in their books can adapt their forms accordingly.

It is, of course, necessary in the case of partly paid shares to have the cash balances representing the capital paid up appearing in the Register of Members, in order that the dividend lists may be prepared and agreed.

Correspondence.

I do not know why your correspondent takes the trouble to state "the consideration for the transfer does not seem to be of sufficient interest to warrant its inclusion in the Ledger," as I have never made any such suggestion.

As regards the note about the Certificate column, of course, if the company find they do not want this information it can be left out. Personally, in moderate sized companies I have found it to be of considerable convenience.

2. As regards the declarations to be made on the sale and purchase of shares, these are constantly varying, and no doubt the special form referred to by the correspondent will shortly cease to be necessary, and the regulations referred to by him apparently relate especially as to where the stock included in the transfer deed is good delivery on the Stock Exchange. I notice the form supplied relates to "temporary regulations for the re-opening of the Stock Exchange," and not to the actual operation of transfer.

3. As regards the statement that a lady shareholder who changes her name should not be troubled with sending in a proper certified note of the change, with a specimen signature, but that a copy of the marriage certificate would be sufficient, the writer of the letter seems to be under the impression that a certified copy of the marriage certificate would bear the bride's signature, and he evidently, therefore, must be a bachelor.

As regards the use of a "Loose Leaf" Register, Section 25 of the 1908 Act provides that "Every company shall keep *in one or more books* a Register of its Members."

I have never heard of any case on the point being brought before the Courts, but from a practical point of view the use of a Loose Leaf Register, whether legal or not, seems to be undesirable from the Secretary's point of view, and in this view I heartily agree with your correspondent.

W. H. F.

A System of Bookkeeping from Original Documents.

By E. J. Foster.

This essay was awarded the prize in the Final Division of the Competition held in August.

A system of bookkeeping from original records may conveniently be employed in various classes of business, but is most useful where there are large numbers of short credit customers constantly changing, thus making the work of opening personal accounts for each one considerable.

The system set out below, though primarily intended for such a concern, could, nevertheless, be used with advantage by other undertakings, the method of paying out, in particular, being generally useful.

It is important that such a system affords adequate internal check. This point has been kept in view in drawing up the following method:—

Purchases.—Orders for purchases will be made out by a Purchasing Department. The form is arranged to serve as an entry in the Purchases Day Book, and is drawn up on the following plan:—

		Date	Name	Particulars of Order	Ref.	Amount
Hole for filing in Loose Leaf Ledger	O					
	O					

The order is made out in duplicate, the top copy sent to the supplying firm, and the second copy handed to the Accountant's Department. It is not advisable to insert any figure in the amount column of the duplicate, as when the order is executed it may be found that prices have altered.

Upon the arrival of the goods they are checked by the Stores Department with the accompanying invoice, and entered up in the Goods Received Book kept by that Department. The invoice is then handed direct to the Accountant's Department, where it is agreed with the duplicate order, any difference inquired into, and the total charge inserted. The duplicate order is then filed in a loose-leaf Purchases Day Book, the invoice is filed in a special file, and the two are cross-referenced. The files for invoices are arranged thus:—Each customer is allotted a file, which is stored with all the others in a long file drawer. Each file contains the invoices relating. Referenced to these invoice files are Card-Index Ledgers, which are posted up as ordinary Ledgers from the invoices. There should be separate drawers to which invoice file and card may be removed when the account is closed.

Bookkeeping from Original Documents.

Periodically the Purchase Day Book is totalled and posted to the "Bought Account" in the General Ledger. From the creditors' cards mentioned above, all credits for the period, whether paid or not, must be taken out on to a schedule, the total agreed with total purchases, and then posted to "Sundry Creditors Account" in the General Ledger. The cards should be ruled off and the balance carried down at each posting and the schedules filed, so that the total appearing in the "Sundry Creditors Account" may be analysed easily if required. It may be mentioned here that often creditors do not vary to any great extent, and in that case it would be preferable to open separate Ledger Accounts, and dispense with the cards (which are merely subsidiary to the "Sundry Creditors Account") and also with that account. The accounts are posted direct from the invoices, and referenced thereto, in exactly the same way as described above.

With regard to Capital Account purchases the same procedure is followed, but a separate Purchases Book is kept, and the items are posted direct to their respective Capital Accounts instead of to "Bought Account."

Credit Sales.—The records of Credit Sales and of Debtors are arranged on the same lines as in the case of purchases and creditors. Invoice forms will be drawn up to act as Sales Day Book entries, while orders received are used in conjunction with a Card-Index Ledger and a "Sundry Debtors Account." The method described above for filing and indexing is most useful for debtors' accounts, as these vary considerably, numerous small transactions continually taking place. The Sales Day Book is totalled periodically and posted to the "Sales Account" in the General Ledger. From the debtors' cards, all debits for the period, whether paid or not, are scheduled, agreed with total credit sales, and posted to the debit of "Sundry Debtors Account." The cards should be ruled off, and the schedule filed for future reference if required.

Cash Sales are dealt with under Receipts.

Payments.—A form as below is required:—

Date.....				
	Name	Particulars	Ref.	Amount
O				.
				6
O				

A duplicate list, on this form, is prepared from invoices, demand notes, &c., of all payments to be made. This list is prepared in the Accountant's Department, from the invoices filed. One copy is retained by the accountant, and the other is sent, with the vouchers, to the secretary, for submission to the Board, and issue of cheques. All invoices paid are cancelled by means of a rubber stamp, and returned to the accountant. The list retained is filed in a Loose-Leaf Ledger, and a Subsidiary Cash Book, for payments only, is

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thus formed. At the usual periods totals are made, and posted to the General Cash Book. The invoices are used for posting, either to the various individual creditors' accounts, or on to the cards, and subsequently in total to "Sundry Creditors Account." In either case the total must be agreed with the Cash Book before posting. The invoices are then re-filed in their respective files, as already described. The rubber stamp is evidence of their payment, but receipts from payees should be filed also, when received. Payments to Impersonal Accounts are, of course, posted in detail to each individual account.

Wages sheets are used as the vouchers for wages payments, a cheque being drawn for the total and only the total posted.

The petty cashier's work is arranged on the same system. He enters up the petty cash book direct from his vouchers, and these are periodically passed forward for recoupment by cheque, duly cancelled, and posted in total to "Office Expenses" or other appropriate account.

Receipts.—Forms as below are required :—

Date.....			
	Name	Ref.	Amount
O			
O			

The cashier makes a list, in duplicate, using the above form, of all receipts, giving particulars of name and amount. The top copy is handed to the accountant, and the duplicate is retained by the cashier for his own information. The accountant files his copy in a Loose-Leaf Ledger, thus forming a subsidiary Cash Book for receipts only. The cashier is also required to hand to the accountant a voucher for every receipt. From these vouchers each debtor's account-card is posted, and the voucher is then filed away in the debtor's file, which, as described above, contains his order for goods supplied. At the general totalling periods, the Subsidiary Cash Book is totalled and posted to the debit of the General Cash Book. The receipts from debtors are scheduled from their cards, agreed with the Cash Book, and then posted in total to the credit of "Sundry Debtors Account" in the General Ledger. Where some of the receipts are from investments, rents, &c., or from Cash Sales, these must be taken into consideration before an agreement can be reached with the Cash Book. Impersonal Account receipts are posted in detail to each individual account in the Impersonal Ledger. Where there are Cash Sales the usual system of check on salesmen may be used, and the cashier must pass all paying-in slips to the accountant after he has agreed his daily takings. The salesmen hand their daily summaries direct to the accountant, who is responsible for checking slips with summary. The cashier's list will show an entry "Cash Sales," and the corresponding credit is then made, from the summaries, in a "Cash Sales Account."

Recording Wages for Costing.

Per Contra Transactions.—Debtors and creditors are kept strictly apart, but if “Per Contra” transactions take place, a transferring entry is made in the ordinary way. The vouchers remain in their appropriate files, and are marked “Per Contra.” Original records are thus utilised as far as is consistent with accuracy, safety, and convenience. Final accounts must be kept in the usual bound Ledgers, and the original records only employed for subsidiary purposes. The system outlined for Sundry Creditors and Sundry Debtors may be said to go rather further than that, however, as each file is in reality a Personal Account. Nevertheless, the final Ledger Account is introduced under the name of “Sundry Creditors Account” and “Sundry Debtors Account.”

Great attention must be paid to references. Every entry in Ledgers, Cards, Day Books, Cash Books, and the debtor and creditor files must be carefully cross-referenced, so that no difficulty or delay is caused when details of any transaction are required.

The foregoing article touches only on the main points arising in dealing with the accounts of a trading concern, but the ground covered is sufficient to demonstrate the possibility of employing original records in actual book-keeping transactions to a much greater extent than is done in general practice.

The Best System of Recording and Paying Wages with a View to Costing.

By B. F. Pears.

The following Essay was awarded the Prize in the Intermediate Division Competition held in August.

Introduction.

It will depend to a large extent on the nature of the business for which the system is required as to the details of such system—even if the principle is the same. The system which I shall endeavour to outline is one which would be suitable for an engineering concern manufacturing an article composed of a large number of small parts.

The cost of each individual part, and of each operation through which such part must pass is required, as well as the cost of the complete article. Costs of tools, machines, fittings, &c., made by the firm for their own use, and costs of repairs, replacements, &c., performed by them are also required.

A firm of this kind will probably adopt a system of payment by results, and the one most likely to be adopted is the Premium Bonus System. In this system the workman has a guaranteed hourly rate which is paid to him—irrespective of output—for every hour spent by him at the works. In addition he may earn a premium, by means of a bonus on all output over and above a certain limit, in the following way:—He is given a number of parts on which to perform a certain operation. A “limit” is set on the job, representing the estimated quantity which a workman of average ability can do in an hour (or such less quantity as may be deemed advisable in order to create the necessary incentive). If the man saves time on the job, he is paid for a certain percentage of the time saved at an agreed rate, in addition to his ordinary time earnings. For example, a man may be given 1,000 parts on which to perform a certain operation, the “limit” per hour being 100. The agreement is that he shall be paid for 50 per cent. of all time he saves. In this case there is 10 hours work (1,000 at 100 per hour), and if he com-

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pletes the job in, say, 6 hours he saves 4 hours, of which he himself receives 2. He would, therefore, be paid for 6 hours at his time rate, and for two hours at his bonus rate. If he had taken, say, 12 hours—thus failing to work up to the limit—he would still have been paid at his time rate for the whole of the time he spent on the job. Thus the workman has nothing to lose and everything to gain. This, then, is the method of payment which I shall suppose to be in operation.

Summary.

The work of recording wages may be divided into four stages, viz.:—

1. The recording by the workman himself of the actual time spent by him at the works, by means of an automatic time recorder.
2. The recording of time spent on various jobs, together with particulars of the nature and quantity of such work to provide information for calculation of bonus earned and for costing.
3. The preparation of Job Cards from the "Time" or "Work" Slips mentioned in Number 2. Such cards should contain a complete consecutive record of all time spent on jobs by the workman, the total of which should agree with hours worked as shown by the corresponding Time Card.
4. The preparation of Wages Sheets and Pay Slips from the completed Time Cards.

1.

The work under this heading requires very little explanation. Any suitable kind of time recorder may be used, the time card being ruled to suit the recorder. The ruling as shown in Form 1 would do very well for the system which I am endeavouring to outline. The figures in italics show how the card would appear when completed by the workman on the time recorder. At the end of the week these cards should be collected and sent to the Wages Office, where the time worked should be calculated, and any deductions for lateness or allowances for overtime made.

2.

Where there are a large number of small parts to be manufactured it is necessary to have a department to control the manufacture of these parts—to ensure that an adequate supply of each is maintained, and to see that each part passes through the required operations in proper order. Upon this department, to which I shall hereafter refer as the Progress Department, devolves the work of preparing and issuing the slips on which the details of the work done by each employee are to be recorded. It is assumed that each part is distinguished by a separate number, and that the manufacture of each part is divided into numbered operations.

Slips as shown in Form 2 should be used—one slip for each operation. The Progress Department should keep a set of records from which may be ascertained the number of operations through which each part must pass, the description of each operation and the department in which it is to be performed.

As will be seen from the illustration given in Form 2 the slips are printed in sets, there being a perforation between each one. A set of slips containing particulars of each operation required should be prepared by the Progress Department before the manufacture of a part is commenced.

The figures entered in italics on Form 2 show how the slips would appear after being prepared in the aforementioned manner.

After such preparation, the set of slips should be sent to the foreman of the department in which the first operation is to be performed. (There should be, of course, a system by which the foreman knows what material, &c., is required, and how to obtain such material, but that need not be discussed here.)

Recording Wages for Costing.

The foreman should then give out the work to any person in his department, at the same time entering on the slip for that operation the works number of the workman concerned, and the time at which he commenced the job. When the job is finished, the foreman should enter in the space provided on the same slip the time at which it was completed. The set of slips, together with the work done, should then be sent to the Inspection Department, where the quantities passed and rejected should be entered in the spaces provided on the slip by the Inspection Foreman.

The figures entered by the foremen of the Manufacturing and Inspection Departments are entered in black type on Form 2. The slip for operation *one* is now complete, and should be detached from the rest of the set by means of the perforation and retained in the Inspection Department until collected by a clerk from the Wages Office.

When the next operation is required to be performed the work, together with the remainder of the set of slips, should be sent to the department stated on the slip for the next operation; the same procedure being observed throughout.

3.

From the slips obtained from the Inspection Department the Wages Office should prepare the Job Cards, a suitable ruling for which is given in Form 3.

As will be seen from the illustration, provision is made on the front of the card for Order Number, Part Number, Times of commencement and completion of jobs, Quantity produced (and passed for payment), and Limit—all of which information is obtainable from the slips.

When the Job Card is complete, i.e. when it contains a complete record of time worked by the person to whom it relates (as shown by italic figures on Form 3), the "hours worked" column should be entered up and agreed with the Time Card.

The Bonus should then be calculated on each job and entered in the "Bonus" column (see black figures on Form 3). The card should now be totalled, and the total bonus earned transferred to the Time Card. The Time Rate and the Bonus Rate should also be entered, and the wages calculated (see Form 1).

In the Engineering Trade at the present time a $12\frac{1}{2}$ per cent. Bonus is paid on work on which no Premium Bonus has been earned, and a $7\frac{1}{2}$ per cent. Bonus is paid on work on which Premium Bonus *has* been earned. This should now be calculated and entered on the Time Card.

In practice, the Time Cards as now completed should *immediately* be sent to the Pay Office for the preparation of wages sheets and pay slips, and should then be returned to the Wages Office, but for convenience I will deal with the further duties of the Wages Office before proceeding with the details of work done by the Pay Office.

It is now necessary to prepare an Analysis of Wages so as to differentiate between Productive Wages and wages for work on Machinery, Plant, Repairs, &c.

The order number which has been entered in the first column of the Job Card should indicate the class of work to which it relates, different initial letters being used for different classes. For instance, "A" could be used for standard production orders, "R" for orders for repairing and replacing tools, &c.

Provision for the analysis of each man's wages is made on the back of the Job Card (see Form 3A).

To simplify costing, separate rates should be worked out to include $7\frac{1}{2}$ per cent. and $12\frac{1}{2}$ per cent. bonus respectively, and these inclusive rates should also be used for the purpose of analysis.

There will, therefore, in most cases, be three different rates, viz. :—

- (1) Time Rate, including $7\frac{1}{2}$ per cent. Bonus.
- (2) Time Rate, including $12\frac{1}{2}$ per cent. Bonus.

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- (3) Premium Bonus Rate (also including $7\frac{1}{2}$ per cent. where the workman is over 21).

The Time Rate on the specimen of Time Card I have given is $\frac{1}{4}$ or 16d. This, including $7\frac{1}{2}$ per cent.=17.2d.; and including $12\frac{1}{2}$ per cent.=18d. The Bonus Rate is 1s., which, including $7\frac{1}{2}$ per cent.=12.9. These three rates should be entered in the spaces provided on the Job Card Analysis (see italic figures on Form 3A). The analysis of the Job Card shown in Form 3 should then be proceeded with as follows:—

- (1) The hours worked on "A" (Production) orders on which Premium Bonus has been earned should be picked out. They are A5041, 10 hours; A3046, 4 hours; total, 14 hours, which should be entered in the "Hours" column under $7\frac{1}{2}$ per cent. rate (17.2) opposite Production (A) analysis.
- (2) The Premium Bonus Hours belonging to these 14 hours—3 hours—should be entered opposite the same analysis under the Pr. Bonus Rate (12.9) in the "Hours" column.
- (3) The hours spent on A. Orders, on which no P. Bonus had been earned should next be entered opposite Production analysis under $12\frac{1}{2}$ per cent. rate.
- (4) The 10 hours on R82 should be entered in "Hours" column under $12\frac{1}{2}$ per cent. Rate (no P. Bonus having been earned) opposite Repairs to Tools (R) analysis, and
- (5) The 8 hours on P847 in the same column opposite Plant (P) analysis.
- (6) The hours in each column should now be calculated at the rate shown at the top of such column, and entered in the space provided for amounts against such hours. (See Form 3A.)
- (7) The total amount for each analysis should be obtained and entered in the totals column, which should also be added up, the result being agreed (approximately) with the corresponding Time Card Total.

The total wages for the week belonging to each analysis should now be obtained by totalling the amounts allocated to each analysis on the individual Job Cards. The completed Analysis of Wages (the total of which should agree with the total wages paid as shown by the Pay Office figures) should be entered on a slip similar to the one shown in Form 4, and sent to the Accountant's Department for posting to the Nominal Ledger Accounts.

The completed Job Cards should be sent to the Costs Office, so that the orders can be charged up with labour expended on them.

4.

As previously stated, the completed Time Cards should be sent to the Pay Office, where the Wages Sheets and Pay Slips should be prepared. No explanation of the wages sheet is necessary beyond the illustration given in Form 5, which is self-explanatory.

The Pay Slip is merely a copy of the Time Card, with particulars of any deductions made from wages earned, the net amount payable being shown (agreeing with net wages as shown on Wages Sheets). An illustration is given in Form 6.

The slip should be enclosed in the pay envelope of the workman to whom it belongs, to explain the calculation of his wages.

Payment of Wages.

To ensure that wages are always paid to the persons entitled to them it is advisable for a check (of brass or steel) containing the firm's name, and the workman's number to be given out by someone who knows both the man and his number. This could easily be done by the foremen.

No wages should then be paid to any workman by the Pay Office except in exchange for such check.

Recording Wages for Costing.

Form 1.

TIME CARD.

No. 100

Name *Smith*

Week ending *8.10.06*

Day	Late	Ordinary In	Ordinary Out	Extra In	Extra Out	Hours
M.		8.01	12.00			4
		1.01	5.00			4
Tu.		8.00	12.00			4
		1.00	5.00			4
W.		8.00	10.00	11.00	12.00	3
		1.00	5.00			4
Th.		8.00	12.00			4
		1.00	5.00			4
F.		8.01	12.00			4
		1.00	5.00			4
S.		8.02	12.00			4
Calculated by E. H.				Hours Worked 43		
Checked by T. S.				Bonus Hours.. 3		
				Total Hours 46		

					£	s	d
43 Hours at 16d.	2	17	4
3 Hours at 12d.	0	3	0
7½% on 14 Hours..	0	1	5
12½% on 29 Hours	0	4	10
					£3	6	7

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Form 2.

Order No. <i>A. 4027</i>	Part No. <i>S. 48</i>	Operation No. <i>1</i>	Order No. <i>A. 4128</i>	Part No. <i>S. 48</i>	Operation No. <i>2</i>
Description of Operation <i>Cut off to required length</i>			Description of Operation <i>Feed one end</i>		
Date Issued <i>5.10.06</i>	Job commenced Mon. 8 a.m.	Quantity Required <i>135</i>	Limit per hour <i>20</i>	Dept. No. <i>2</i>	
Workman's No. <i>100</i>	Job finished Mon. 4 p.m.	Quant. produced <i>135</i>	Limit per hour <i>12</i>	Dept. No. <i>4</i>	
Inspected by <i>A. E. T.</i>	Quant. passed <i>130</i>	Quant. rejected <i>5</i>	Date Issued <i>12.10.06</i>	Quantity Required <i>130</i>	Job commenced Tues. 4 p.m.
			Workman's No. <i>201</i>	Job finished Wed. 8.30	Quant. produced <i>130</i>
			Inspected by <i>E. F.</i>	Quant. passed <i>129</i>	Quant. rejected <i>1</i>
					Date inspected <i>13.10.06</i>

Same Ruling.

Same Ruling.

Same Ruling.

Same Ruling.

Recording Wages for Costing.

Form 3.

JOB CARD.

Week ending 8.10.06

Workman's No. 100

Order and Part No.	On	Off	Limit	Quantity	Hours Worked	Bonus Hours	Total
A 4027 S 48	8 a.m. Mon.	4 p.m. Mon.	20	130	7	—	7
A 5041 S 37	4 p.m. Mon.	9 a.m. Wed.	100	1400	10	2	12
A 3046 S 111	9 a.m. Wed.	3 p.m. Wed.	20	120	4	1	5
R 82	3 p.m. Wed.	5 p.m. 1 h.	—	—	10	—	10
P 847	8 a.m. Fri.	5 p.m. Fri.	—	—	8	—	8
A 6000 S 20	8 a.m. Sat.	12 a.m. Sat.	8	30	4	—	4
Total					43	3	46

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Form 3a (Reverse side of 3).

JOB CARD ANALYSIS.

Week ending 8.10.06

Workman's No. 100

Analysis	Rate (including 7½% 17.2d.		Rate (including 12½% 18d.		Rate (Bonus) 12.9d.		Totals	
	Hours	£ s d	Hours	£ s d	Hours	£ s d	Hours	£ s d
Production (A) ..	14	1 0 0	11	0 16 6	3	0 3 2	28	1 19 8
Fittings (F) ..	—	—	—	—	—	—	—	—
Plant (P) ..	—	—	8	0 12 0	—	—	8	0 12 0
Machinery (M) ..	—	—	—	—	—	—	—	—
Repairs (R) ..	—	—	10	0 15 0	—	—	10	0 15 0
Tools (T) ..	—	—	—	—	—	—	—	—
							46	£3 6 8
								Totals ..

Recording Wages for Costing.

Form 4.

ANALYSIS OF WAGES.

Week ending.....

Analysis	Amount			N Ledger Folio
	£	s	d	
Production ..				
Fittings ..				
Plant				
Machinery ..				
Repairs ..				
Tools ..				
Total	£			(To agree with Wages Sheet Total)

Prepared by.....

Approved by.....

Date.....

Form 5.

WAGES SHEET No. 3. WEEK ENDING 8/10/1906.																		
No.	Name	Hours	Rate	Gross Wages			Deductions				Net Wages		Employer's Con.					
				£	s	d	Health In.	Unem. In.	Infirm.	Total	£	s	d	Health	Unemp't.			
100	Smith ..	46	17'2 &c.	3	6	7		d 2½	d	2	d 9½	3	5	9½	d 5	d 2½		
101																		
102																		
103																		

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Form 6.

Employee No. 100				Week ending 8/10/06				
				s	d	£	s	d
Hours worked	=	43	at 1 4	=		2	17	4
Bonus hours	=	3	" 1 0	=		0	3	0
7½% on 14 hours ..			..			0	1	5
12½% on 29 hours ..			..			0	4	10
Total ..						£3	6	7
				s	d			
Less {	Health Insurance	..	0 5					
	Unemp't ..	0 2½						
	Infirmary	..	0 2					
Total paid ..						£3	5	9½

The Association of Public Accountancy Tutors.

An Association has recently been registered in Melbourne under the Companies Act, 1915, styled "The Association of Public Accountancy Tutors."

This Association has been formed with the objects, amongst others, of:—

- (a) Aiming at the elevation of accountants, by the dissemination of professional knowledge and the inculcation of sound principles of teaching.
- (b) Increasing the confidence of the Banking, Mercantile, and general community in the employment of recognised teachers of accountancy by admitting to the Association such persons only as shall in future possess the necessary qualifications in the theory and practice of the work, and by the prevention of illegal and dishonourable practices.
- (c) Affording means of communication between the various Accountants' Institutes and the Association.
- (d) Elevating the standard of efficiency by watching over the standard and syllabuses of the various Accountancy Institutes.
- (e) Affording means of reference for settlement of questions arising out of various examinations.

In order to qualify for membership the applicant must be a Fellow, Associate, or Licentiate of one of the recognised Institutes of Accountants, and must have been engaged in practical teaching of Accountancy for a period of not less than three years. He must also prove to the satisfaction of the Council that he has been in practice as a Public Accountant for a period of at least twelve months.

The following gentlemen are the first members of the Council, viz.:—
President, Mr. E. Pyke, F.I.C.A.

Vice-President, Mr. Wm. Buck, F.C.P.A. (Wm. Buck Correspondence Schools Pty. Ltd.), and Mr. C. H. Holmes, F.I.C.A. (Stotts Business College), Mr. W. Leslie V. Porter, F.I.C.A. (Hon. Secretary), Mr. C. V. Robertson, F.I.C.A. (Hemingway & Robertson's Correspondence Schools Pty. Ltd.). The other foundation members are:—Mr. A. H. Charles, A.C.P.A., Mr. H. E. Poole, F.C.P.A., and Mr. A. L. Sutton, A.I.C.A.

Legal Notes.

By Albert Crew, Barrister-at-Law.

An up-to-date knowledge of recent decisions in the Courts is of the greatest value to accountants and business men and to students reading for their examinations. In this column are noted the salient features of the leading cases decided during the preceding month.

Auditors and Accounts.

Payment of Electioneering Expenses in Adjoining Constituencies.

A Glasgow elector impeached the legality of an item of £6,666 14s. 10d. in the accounts of the common good as to fees for professional services under the heading "Parliamentary Expenses, Glasgow Boundaries Act, 1912." The item related to a bill (which became the Act of 1912), promoted by the corporation for the enlargement of the burgh of Glasgow by the inclusion therein of certain adjoining burghs. The item included certain payments in respect of election expenses of annexationist candidates for membership in the municipal councils in the burghs sought to be annexed. It was held that such payments were *ultra vires*, as they were against public policy as tending to interfere, in the interest of the corporation, with the municipal elections in the adjoining burghs. *Kemp v. Glasgow Corporation* (1920, A.C. 836).

Bankruptcy.

Bankruptcy of Customer owing to Negligence of a Bank.

In an action against a bank by a trading customer (who had become bankrupt) and his trustee in bankruptcy for damages for breach of contract, the jury found that the bank had agreed with the customer to supervise the financial side of his business during his absence on military service, and to take all reasonable steps to maintain his credit and reputation, and had, by its negligence in the discharge of its duties under this agreement, caused the bankruptcy of the customer; and they awarded the plaintiffs £45,000 damages for the loss occasioned to the bankrupt's estate by the negligence of the bank, and £7,500 damages for the injury caused by that negligence to the bankrupt's credit and reputation. It was held that the right to claim damages for the injury to the bankrupt's credit and reputation did not pass to the trustee in bankruptcy, but remained in the bankrupt, and that in the case of a trading customer substantial damages were recoverable on this head of claim without proof of special damage. *Wilson v. United Counties Bank* (1920, A.C. 102).

Decease of Bankrupt Child in Testator's Lifetime.

A testator bequeathed a share in his residuary estate to his son. The son died in testator's lifetime, leaving issue who survived the testator, but having been adjudicated bankrupt without obtaining his order of discharge. It was held that the trustee in bankruptcy was entitled to the son's share in the residuary estate. *Smith v. Pearson* (1920, 1 Ch. 247).

Power of Court in Scotland to Order Instalments of Salary of Bankrupt to be Paid to Trustee.

Under Section 98 of the Bankruptcy (Scotland) Act, 1913, it is competent for the Court to order an undischarged bankrupt to pay instalments of his future personal earnings, as and when they become due, to the trustee in his bank-

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ruptcy for the benefit of his creditors, so far as they are in excess of the amount necessary for his suitable aliment. Per Lord Cave: If a similar question should arise under the English Bankruptcy Acts, it will be necessary to reconsider the matter with special reference to the English law and practice. *Hamilton v. Caldwell* (1920, 88 L.J., P.C. 173).

Valuation of Security.

D. mortgaged bonds in Ireland by separate instruments to W. & B., and subsequently was adjudicated a bankrupt in the English Courts. W. & B. valued their securities in the bankruptcy proceedings at amounts less than the principal sums covenanted to be paid. The trustee in bankruptcy of D. having sold the mortgaged lands as vendor under the Irish Land Purchase Acts, W. & B. were returned on the final schedule of incumbrances as claimants in respect of their mortgages. W. subsequently obtained an order in the bankruptcy proceedings empowering him to withdraw his proof, but no such order was applied for by B. It was held that W. & B. were not restricted to the amounts of their respective valuations, but were entitled on allocation to payment of the full amount of their claims respectively with interest at the rate stipulated for in their respective mortgages. *In re Turketine's Estate* (1920, 1 I.R. 23).

Companies.

Vesting Order in Custodian of Enemy Property.

Where the custodian of enemy property has, in pursuance of a vesting order made under Section 4 of the Trading with the Enemy Amendment Act, 1916, been registered as the owner of shares held in a company by enemy shareholders, a condition that dividends due to enemy shareholders should be paid out of assets in an enemy country is not binding on the custodian with respect to dividends directed to be paid after the date of his registration, and the company is liable to pay to him in cash all dividends declared on such shares since that date. *In re Aramayo Francke Mines* (1920, 36 T.L.R. 858).

Letters of Renunciation in Favour of Nominee and Transfers of Shares.

Letters of renunciation of bonus shares in favour of a nominee and of acceptance by that nominee do not, in the absence of special provisions to the contrary, amount to a transfer of shares so as to fall within, and be subject to, the articles of association of the company dealing with the transfer of shares of shareholders already registered. *In re Pool Shipping Co.* (1920, 1 Ch. 251).

Directors as Trustees for Shareholders.

The directors of a company must act strictly as trustees in carrying through transfers of shares unfettered by any undertaking or promise to any intending purchaser. An appointment of a chairman of directors made in contravention of the articles of association is void, and is not regularised by mere acquiescence, and consequently resolutions carried by the casting vote of such a chairman are inoperative. The transfer of a controlling interest in a company is not a matter of mere internal management. It may involve a complete transformation of the company, and consequently such a transfer may in a proper case be restrained. *Clark v. Workman* (1920, 1 I.R. 107).

Contract.

Agreement to Pay Rebates on Freights Illegal by Foreign Law.

An agreement made in British territory to allow rebates upon freights paid for the carriage of goods by sea to a foreign country cannot be repudiated after the goods have been carried and the freights paid, on the ground that payment of the rebates would subject the shipowners to penalties under legislation of the foreign country. *Trinidad Shipping and Trading Co. v. Alston* (1920, A.C. 888).

Legal Notes.

Sale of Real Property, Note or Memorandum in Writing.

A pleading signed by counsel may be a sufficient note or memorandum in writing of a contract for the sale of real property to satisfy Section 4 of the Statute of Frauds. *Grindell v. Bass* (1920, 36 T.L.R. 867).

Unreasonable Condition on Cloakroom Ticket.

The fact that a condition on a railway cloakroom ticket is unreasonable does not prevent the railway company from relying on the condition, unless it is so extravagant as to amount to fraud. *Gibaud v. Great Eastern Railway* (1920, 36 T.L.R. 884).

Guarantee.

Notice by Surety to Determine Guarantee.

M. gave a guarantee to a bank by which he guaranteed payment on demand or on the sooner determination of the guarantee of all moneys due or to be due to bank by B. on current or other account, the guarantee to be a continuing one up to £5,000 only for principal, and to be determinable on the initiation of the bank by closing the account, ascertaining the amount due, and demanding payment by M., or to be determined by M. giving to the bank three months' notice in writing to determine the guarantee. It was held that in the event of neither of these steps being taken, M. had no immediate right to compel B. to relieve him from his liability. *Morrison v. Barking Chemicals Co.* (1920, 122 L.T. 423).

Insurance.

Misrepresentation by Agent and Ultra Vires Transaction.

A person was induced to take out an endowment policy in an assurance society, registered under the Friendly Societies Act, 1896, on the representation of the society's agent that on payment of a first premium the insured would obtain an immediate loan of £100 without security and without interest. Under the Act, a registered society can make loans only to members of at least one full year's standing. Having paid the premium, the insured applied to the society for a loan of £100, but relying on the statute and their rules, the society refused to grant the application. Thereupon the insured, alleging false and fraudulent misrepresentation on the part of the society's agent, claimed by civil bill process the return of the premium. It was held that the society could not be allowed to retain money which had been procured for and received by it under a contract which the insured had been induced to enter into by the fraudulent misrepresentation of its agent; that even though the agent's misrepresentation involved the doing of an act which was illegal or *ultra vires* on the part of the principal, he was nevertheless acting within the scope of his authority in making it, in so far at least as to deprive the society of the right to retain any benefit under it. *Byrne v. Rudd* (1920, 2 I.R. 12).

Landlord and Tenant.

Business Premises and Expiration of Tenancy before the Increase of Rent and Mortgage Interest (Restrictions) Act, 1920.

A quarterly tenancy of business premises was terminated by a valid notice to quit expiring on June 24th 1920. The tenant did not give up possession, but continued to stay on. The Act of 1920 was the first Act to apply to business premises, and came into force 2nd July 1920. On July 2nd, after the tenant had locked up and left the premises, the landlord caused the locks to be broken, and took possession. It was held that, business premises being within the Act, the tenant was protected from eviction by legal process, and was, therefore, entitled to the benefit of the Act, that the expression "let" could not be confined to premises in respect of which a letting was in exist-

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ence at the time when the protection of the Act was claimed, but must be read as sufficiently elastic to include the letting under which the tenant who claimed the protection of the Act became tenant, and that the tenant was entitled to an injunction against the landlords from interfering with him in his occupation of the premises. *Remon v. City of London Real Property Co.* (1920, 36 T.L.R. 869).

Recovery of Possession: Discretion of Court.

A tenant of a dwelling-house which was not within the Increase of Rent and Mortgage Interest (War Restrictions) Act, 1915, but which came within the Act of 1920 (*supra*), and which came into force 2nd July 1920, was in arrear with his rent, and the landlord gave the tenant a valid notice to quit, which expired on June 21st 1920. In an action by the landlord for possession it was held that under Section 5 of the Act of 1920 the Court had a discretion, and there would be an order for possession with costs, but the order would be discharged if within three weeks the tenant paid the arrears of rent and mesne profits. *Reeks v. Shilley* (1920, 36 T.L.R. 868).

Rates Payable by Landlord, and Commission Thereon.

Where a landlord, in respect of a dwelling-house within the Increase of Rent, &c. Act, 1915, agrees with the overseers under Section 3 of the Poor Rate Amendment and Collection Act, 1869, to pay the poor rates, and is allowed a commission on the amount thereof, he is not entitled, under the Act of 1915, to increase the rent by the amount of any increase in the actual rates, but merely by the amount of the increase in the net sum payable by him after deducting the commission. By the Act of 1920 the landlord is entitled to increase the net rent by 40 per cent., and therefore the smaller the rate deducted for the purpose of ascertaining the net rent, the larger would be the amount of rent to which the 40 per cent. increase would apply. *Nicholson v. Jackson* (1920, 36 T.L.R. 854).

Rates Paid by Landlord.

A lease existing on August 3rd, 1914, reserved a rent of £58 free of all taxes. It was held that £58 was the standard rent within the meaning of the Increase of Rent and Mortgage Interest (Restrictions) Acts, 1915-1919. *Lawrie v. Woods* (1920, 2 I.R. 106).

Duty of Tenant to do his best to find other Accommodation.

In an action for the recovery of possession of a dwelling-house to which the Increase of Rent, &c. Acts (*supra*) applied, the tenant claimed the protection of the Acts, alleging that he could not find alternative accommodation. It was held that the tenant is not entitled to say that no case has been made against him, unless the landlord proves affirmatively that there is actual alternative accommodation available for the tenant. The tenant cannot sit down and do nothing but wait until the landlord has found other premises for him. It is the tenant's duty to do his best to find other accommodation, and the onus is on him to prove that he has done his best to secure alternative accommodation. *Bazalgette v. Hampson* (1920, 122 L.T. 683).

Right of Landlord to enter into Lands and Tenements.

The Statute 5 Ric. 2, stat. 1, c. 7, provides that none may make any entry into any lands or tenements, but in case where entry is given by the law; and in such case not with strong hand, nor with multitude of people, but only in peaceable and easy manner; and that if any man do to the contrary, and thereof be duly convicted, he shall be punished by imprisonment of his body, and thereof ransomed at the King's will. The plaintiffs, a man and his wife, lived in a cottage belonging to the Stoke Poges Golf Club, the man being in their service, and being required by them to live in the

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cottage as part of his service, and for the performance of his duties. He left their service, but refused to give up the cottage after notice to quit duly given. Thereupon, by command of the Golf Club, several persons entered the cottage and removed the plaintiffs' furniture, using no more force than was necessary for that purpose. In an action by the plaintiffs for assault, battery and trespass it was held, reversing the judgment of Peterson, J., that the defendants were not liable, their right of entry being a defence to civil proceedings for the acts complained of. *Hemmings v. Stoke Poges Golf Club* (1920, 1 K.B. 720).

Covenant by Lessee to Maintain Prices of Admission.

Under a covenant by the lessee of a theatre that he would at all times during the term maintain the prices of admission as now charged at the theatre, and would not reduce the same without the consent, in writing, of the lessor first obtained, it was held that the covenant only restricted a decrease, and did not restrain an increase in the prices of admission. *In re Dott's Lease* (1920, 1 Ch. 281).

House Reasonably Fit for Human Habitation.

A landlord does not commit a breach of the condition that a house is reasonably fit for human habitation within the meaning of Sections 14 and 15 of the House, Town Planning Act, 1909 (which provides that in the case of a house situate in a borough or urban district containing a population of not less than 50,000, let at a rent not exceeding £26, there shall be implied a condition that the house is at the commencement of the tenancy reasonably fit for human habitation), because it is from time to time invaded from without by rats in considerable numbers. *Semble, per Salter, J.*, there may be a breach of the condition implied by these sections if a house is infested with rats in the sense that they breed there, are regularly there, and, as it were, form part of the house. *Stanton v. Southwick* (1920, 2 K.B. 642).

Registration of Business Names Act, 1916.

Furnishing False Statement.

By Section 9, if any statement required to be furnished under this Act contains any matter which is false in any material particular to the knowledge of any person signing it, that person shall, on summary conviction, be liable to imprisonment or to a fine or to both. A person who was registered under the Act on 16th March 1917 furnished a written statement signed by him which was false in a material particular to his knowledge. It was held that the offence for which the penalty is imposed is the offence of furnishing a statement containing matter false in a material particular to the knowledge of the person signing the statement; that the offence is complete on the day when he statement is furnished; that it is not a continuing offence, and, therefore, as the information was not preferred before the magistrates until 11th June 1918, i.e. more than six months after the statement was furnished, it was, by virtue of the Summary Jurisdiction Act, 1848, out of time. *Board of Trade Solicitor v. Ernest* (1920, 1 K.B. 826).

Wills, Executors, and Trusts.

Infant Legatee.

An executor cannot, by appropriating the amount of a pecuniary legacy given to an infant, and investing the same in any investment in which money under the control of the Court ought properly to be invested, render himself free to distribute the residue of his testator's estate without incurring personal liability in respect of the legacy, and prevent recourse to the testator's residuary estate by the legatee if the fund so created should prove insufficient to pay the legacy in full upon his coming of age, and the same is true even when the legatee's guardian assents to the appropriation and investment. *In re Salomons* (1920, 1 Ch. 290).

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Legatee of a Testator's Business Trading with the Assets for his own Benefit.

A legatee to whom a testator had bequeathed his business continued to carry it on with the acquiescence of the executors. After decree for administration, the business was conducted by a receiver appointed by the Court, and was subsequently sold by the Court as a going concern. The assets were insufficient to pay all liabilities in full. It was held that the legatee had no duty to perform towards the estate, and, therefore, was not entitled to any indemnity, and that the creditors of the testator were entitled to be paid in priority to the creditors, whose debts were incurred during the legatee's trading. *In re O'Kelly* (1920, 1 I.R. 200).

Unauthorised Investments.

As between tenant-for-life and remaindermen interested under a will directing the conversion of residuary estate with a power of postponement, the tenant-for-life will be entitled to interest at 4 per cent. upon the capital value, ascertained at the testator's death, of unauthorised income-producing investments. *In re Beech* (1920, 1 Ch. 40).

Legatee to Pay Debts and Undisposed of Personalty.

A testator gave a farm to his son Francis, and having given pecuniary and other legacies, made this provision: "My son Francis shall also pay 'all my just debts and demands against my property, death bed and funeral expenses.'" There was a residue of undisposed-of personalty. It was held that Francis took the farm on the condition that he paid all the testator's debts and testamentary expenses, that having accepted the bequest he was bound to fulfil the condition, and that the undisposed of residue was exonerated from liability. *Duffy v. Duffy* (1920, 1 I.R. 122).

Mortgage and Priorities.

Where a trustee, before his appointment, acquires knowledge of an incumbrance on the trust estate, in such a way that as a reasonable man he would, on his appointment, act upon and regulate his conduct in the execution of the trust by the information so acquired, and that knowledge continues to operate on his mind in the same way after his appointment, notice given to him after his appointment by a subsequent incumbrancer will not displace the priority of the earlier incumbrance. Rule in *Dearle v. Hall* (1828, 3 Russ 1), applied. *Ipswich Permanent Money Club v. Arthy* (1920, 2 Ch. 257).

Workman's Compensation.

Casual Labour.

The question whether a casual labourer is employed for the purposes of the employer's trade or business so as to bring himself within the definition of "workman" in Section 13 of the Workmen's Compensation Act, 1906 (which provides that a workman does not include a person whose employment is of a casual nature, and who is employed otherwise than for the purposes of the employer's trade or business), depends upon the facts of each particular case, and does not turn on the question whether the premises in respect of which the work is done are used solely for business purposes, or are used for domestic purposes also. A farmer, who lived in a small farmhouse on the farm, employed a casual labourer to thatch the roof of the farmhouse. The man fell off the roof and sustained injuries which caused his death. It was a common practice for farmers in the district to do their own thatching. Upon a claim for compensation, it was held that there was evidence upon which the Judge could find that the deceased man was employed for the purposes of the farmer's trade or business. *Manton v. Cantwell* (1920, A.C. 781).

Queries and Replies.

(Correspondents who wish to make use of this column are requested to write their queries on one side of the paper only and to be as brief as possible. There is no need to enclose a covering letter if the communication is headed "Accountants' Journal, Queries and Replies column," and signed at the end with the name and address of the sender, which will not be published if the query is signed with a *nom de plume*.)

Liability of Directors exceeding their Borrowing Powers.

A company has power by its memorandum to borrow money. The articles fix the limit at £10,000. What is the position of a bank which exceeds the limit of £10,000 and the shareholders refuse to alter the articles to make the action of the directors "*intra vires*"?

1. Assuming the bank had knowledge of the restrictive clause.
2. Assuming the bank was unaware of such clause.

In 1 is there a right of action for the excess against the directors, or is there no right at all either against the directors or the company?

In 2 is there a right of action for the excess against the company, or only against the directors?—RED SPINNER.

It has been definitely laid down in the cases of *Chapels v. Brunswick Building Society* and *Wenlock v. River Dee Co.* that if the borrowing is beyond the powers of the company the loan and all securities for it are entirely void, but if the borrowing is only beyond the powers of the directors, and the company could, by altering its Articles of Association, authorise the loan, then it is capable of being ratified, and may become valid.

Further, if under the articles limiting the directors' powers the transaction could have been lawfully carried out by obtaining the sanction of the company in general meeting, the bank is entitled to assume that all necessary steps have been taken to validate the borrowing, and is not bound to require evidence of this (*Fountaine v. Carmarthen Railway*), although if a *Special* resolution is necessary they must not assume that such has been passed, as it could be verified by inspection of the same registered at Somerset House.

Where a definite limit is fixed, there is an implied veto against borrowing beyond that limit. Under the circumstances mentioned there would probably be a good case against the directors personally, but not against the company, if the bank were ignorant of the restriction; but, on the other hand, if the bank knew of it, and in spite of the knowledge made advances, we do not think there would be any right of action unless the advance was made to the directors as private individuals, and not to the company.

Ready Reckoner for Gas Accounts.

I should be much obliged if you can tell me where I can obtain a ready-reckoner suitable for calculating gas consumers' accounts.—BUNNY.

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We recommend you to apply to any gas company, as we understand they print their own ready reckoner for their collectors. We cannot learn of any actual publication to suggest.

P. P. I. Clause.

What is a "P. P. I." clause in relation to Marine Insurance?—
H. R. A.

These letters stand for "Policy proof of Interest," the clause being originally employed in perfectly *bonâ fide* marine insurance policies in order to eliminate the difficulty of proving the assured's *insurable* interest, but towards the end of the eighteenth century it became, to a great extent, a mere instrument for wagering; people having no insurable interest taking out policies, and the mere fact of holding the policy was considered to prove that they *had* an insurable interest.

In 1746 the Marine Insurance Act was passed, which, for the first time prohibited gaming or wagering policies, and was superseded by the Marine Insurance Act of 1906, which made void every contract of marine insurance by way of gaming or wagering.

Brewers' Delivery and Establishment Charges.

I have now a further favour to ask you in regard to two beers, which are, in expense of delivery and in all other matters, absolutely equal. No differentiation is possible between them.

The first is priced at	138/-	per barrel
and it costs	100/-	„

leaving a gross profit of	38/-	or 27.5%
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The second is priced at	100/-	per barrel
and it costs	69/-	„

leaving a gross profit of	31/-	or 31%
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Deduct delivery and establishment charges, say 25 per cent., leaving in the first case 2.5 per cent. and in the second case 6 per cent. net profit.

These figures, if set out in another way, appear thus:—

First beer—Cost of brewing	100/-	per barrel
Costs of delivery and all other charges	31/-	„
Sale price	138/-	„

Net profit	7/-	„
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Second beer—Cost of brewing	69/-	„
Costs of delivery and all other charges	31/-	„
Sale price	100/-	„

Net profit	Nil	„
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*Which method of working is correct?—*R. W. C.

Students' Society Notes.

In the first statement the delivery and establishment charges are given at 25 per cent., i.e. 25 per cent. of 138s.=34s. 6d., 25 per cent. of 100s.=25s.

Using these figures *instead* of 31s. in each case (you do not explain *why* you use 31s.), you then have

(1)	Cost of brewing	...	...	100/-	per barrel.
	„ delivery	...	...	34/6	„ „
	Sale price	...	...	138/-	„ „
	Net profit	...	...	3/6	or 2½ per cent.
(2)	Cost of brewing	...	...	69/-	per barrel.
	„ delivery	...	...	25/-	„ „
	Sale price	...	...	100/-	„ „
	Net profit	...	...	6/-	or 6 per cent.

which results, you will see, agree with your first statement.

Students' Society Notes.

The Chartered Accountant Students Society of London.

The special attention of all members is directed to the "Monthly Calendar" on page 383, where will be found particulars of very interesting and instructive lectures by members of the legal and accountancy professions to be held during the month in connection with the autumn programme. These meetings will be held in the Examination Hall of the Institute, on Wednesdays, at 6 p.m.

The Society's Elementary and Advanced Classes in Bookkeeping and Accounts and in Law commenced on the 9th and 10th September last, and are being held for ten subsequent weeks. The Elementary Lectures, which are free to members, afford to newly articulated students a thorough acquaintance with the elementary principles of the subjects in which they will be examined at the Intermediate and Final Examinations. The Advanced Classes are recommended to those students who have passed their Intermediate but have not yet sat for the Final. The fee for each of the Advanced Courses is £1 1s.

Enrolment for these classes should be made forthwith in order to obtain the required attendances to be eligible to sit for the examinations at the end of the course.

Birmingham Chartered Accountant Students' Society.

The thirty-seventh annual general meeting of the above Society was held on Friday, 10th September 1920.

The proceedings were quite short and formal.

The President, Mr. W. E. Alldritt, F.C.A., took the chair, and in presenting the Report and Accounts remarked that they showed a very satisfactory position, there being a profit on the year's working. He pointed out, however, that the success of the Society should be judged rather by the benefit derived by its members from the lectures given during the winter rather than by the financial position, important though that might be.

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The Report and Accounts were then agreed to as presented.

A hearty vote of thanks was accorded to all the officers and members of the Committee for the past year.

Mr. Tatlow, in proposing the resolution, said he would like to couple with it an expression of the Society's regret in the death of their late Secretary, Mr. Simpson, and their deep sympathy with his relatives in their loss.

The following officers were elected or re-elected for the ensuing year:—

President.—Mr. W. E. Alldritt, F.C.A.

Vice-Presidents.—Mr. J. S. Milligan, A.C.A., and Mr. G. W. L. Thompson, A.C.A.

Hon. Treasurer.—Mr. V. L. Thompson.

Hon Librarian.—Mr. T. W. Bladon, A.C.A.

Hon. Secretary.—Mr. W. S. James-Moore.

A vote of thanks to the Chairman for his able conduct in the chair brought the meeting to a close.

Chartered Accountants Students' Society of Kingston-upon-Hull.

The annual general meeting of the above Society was held in the Hall of the Incorporated Law Society, Bowlalley Lane, on Wednesday, the 22nd day of September, at 8 o'clock, and a report will appear in our next issue.

In order to ensure an attractive and interesting syllabus for the Session 1920-21, the Committee have circulated to members a list of questions whereon they may express their opinions as to subject-matter, &c., for the meetings.

In addition to the consideration of the above, the usual business of receiving the Accounts and Report, and of the election of officers, was transacted.

South Wales and Monmouthshire Chartered Accountant Students' Society.

The Committee are engaged in the preparation of a syllabus for the coming winter, and they appeal to every member to assist them in making the session a great success. It is intended to hold more frequent meetings than in the past, and certain new features are to be included in the programme.

Will members please note:—

1. That subscriptions and Class fees are overdue.
2. That the Library has been removed to the Society's room at 5 High Street, Cardiff, where books may be obtained on Saturday mornings, or at other times by arrangement with the Librarian, Mr. C. A. Mitchell.

Books of the Month.

- GOODWILL AND ITS TREATMENT IN ACCOUNTS.** By LAWRENCE R. DICKSEE, M.Com., F.C.A., and FRANK TILLYARD, M.A., M.Com. $8\frac{1}{2} \times 5\frac{1}{2}$, viii+184 pp. Fourth edition. 10s. 6d. net. [This book should make a wide appeal to every business man. The important questions of "Watering Capital" and the Issue of Bonus Shares, receive special attention.]
- HOW TO READ THE BALANCE SHEET OF A COMMERCIAL CONCERN.** By F. W. PIXLEY, F.C.A. $8\frac{1}{2} \times 5\frac{1}{2}$, 64 pp. Fifth edition. 4s. 6d. n. [The subject has been dealt with in a very clear and concise manner, and it is a book which should recommend itself to anyone who is interested in Balance Sheets, whether he be a shareholder, a financial critic, or an accountant student.]
- THE CONDUCT AND PROCEDURE AT PUBLIC AND COMPANY MEETINGS.** By ALBERT CREW, Barrister-at-Law. $7\frac{1}{4} \times 5$, xx+264 pp. Sixth edition. 5s. net. [This is a book which should find a place in the library of all Company Secretaries, and it will prove an invaluable aid to anyone who may be called upon to act as Chairman at a public meeting. The volume concludes with some 260 questions from the Examination papers of the Chartered Institute of Secretaries, which serve as a very good guide as to the scope of the examiner's requirements.]
- BILLS OF EXCHANGE, CHEQUES AND PROMISSORY NOTES.** By ALAN MCNEIL. $7\frac{1}{2} \times 5$, xvi+196 pp. Third edition. 7s. 6d. net. [This book should find a ready sale among students for the examinations of the Institute of Bankers. It is well arranged and clearly written.]
- A DIGEST OF THE LAW OF PARTNERSHIP.** By the Rt. Hon. Sir FREDERICK POLLOCK, Bart., K.C., D.C.L. $8\frac{1}{2} \times 5\frac{1}{2}$, xxiv+267 pp. 15s. net. [The 11th edition of this work has been brought up to date. It contains some useful forms, &c., and is a book no lawyer or accountant should be without.]
- CHAMBERS INCOME TAX GUIDE.** By JOHN BURNS, W.S. $7 \times 4\frac{3}{4}$, 284 pp. 3s. 6d. net. [The fourth edition of this useful work has been enlarged and extensively rewritten. It covers the 1920 Budget, and includes Special Chapters on Professional men, Farmers, Weekly Wage-earners, Non-residents, Double Empire Taxation and Super-Tax.]
- DEBENTURES: The Purposes they Serve and How they are issued.** By HERBERT W. JORDAN. $8\frac{1}{4} \times 5$, vi+65 pp. (Paper cover.) 1s. 6d. net. Post free 1s. 10d. [The fact that this book has reached the ninth edition is proof of its usefulness. It should find a place on the bookshelf of every student of Company Law.]
- INCOME TAX for Year 1920-21.** Rates, Relief, Repayment. $7\frac{1}{4} \times 4\frac{3}{4}$. 66 pp. 2s. net. [Includes a reprint of the Income Tax Portion of Finance Act, 1920; List of Stocks Taxable by Assessment; and an Index.]

Monthly Calendar.

October 4th, Monday.—LONDON SCHOOL OF ECONOMICS.—Public Lecture, "Economics as a Liberal Education," by Sir William Beveridge, K.C.B., Director of the School, 5.30 p.m.

NORTH WEST LANCASHIRE DISTRICT SOCIETY OF INCORPORATED ACCOUNTANTS AND AUDITORS.—Lecture, "Statistics," by C. Townsend, A.S.A.A.

October 5th, Tuesday.—LONDON SCHOOL OF ECONOMICS.—Public Lecture, "Coal as a Factor in International Trade," by Professor Sargent, 5 p.m.

NATIONAL GUILD OF ACCOUNTANTS' CLERKS (LONDON BRANCH).—Meeting, 6.30 p.m., at "The Talbot," London Wall, E.C. 2.

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October 6th, Wednesday.—LONDON SCHOOL OF ECONOMICS.—Public Lecture, "The Origin and Growth of English Commercial Law," by Professor H. C. Gutteridge, 6 p.m.

LONDON CHARTERED ACCOUNTANT STUDENTS' SOCIETY.—Lecture, "Recent Cases on Excess Profits Duty and Income Tax," by Mr. Herbert Jacobs, B.A., Barrister-at-Law, 6 p.m., at the Institute of Chartered Accountants.

INSTITUTE OF BOOKKEEPERS, LTD.—Lecture, "The Joy of Work," by Mr. H. Gordon Selfridge, 6.30 p.m. at the Haberdashers Hall, London, E.C. 2.

October 7th, Thursday.—LONDON SCHOOL OF ECONOMICS.—Public Lecture, "Published Balance Sheets and Accounts," by Professor L. R. Dicksee, M.Com., F.C.A., 6 p.m.

October 9th, Saturday.—SCHOOL OF ACCOUNTANCY STUDENTS' ASSOCIATION (MANCHESTER BRANCH).—Visit with Liverpool Association to Works of Metropolitan Vickers Electrical Co., followed by smoking concert.

October 13th, Wednesday.—LONDON CHARTERED ACCOUNTANTS STUDENTS' SOCIETY.—Lecture, "Published Accounts of Government," by Mr. H. A. Postlewaite, 6 p.m., at Institute of Chartered Accountants.

October 14th, Thursday.—LONDON SCHOOL OF ECONOMICS.—Public Lecture, "Forms of Industrial Self-Government," by Professor L. T. Hobhouse, 6 p.m.

October 18th, Monday.—CORPORATION OF INSURANCE BROKERS, METROPOLITAN AND HOME COUNTIES DISTRICT COMMITTEE.—Lecture, "The Evolution of Accident Insurance," and "Points arising out of the Examinations," by Mr. R. T. Thomson, F.C.I.I., 8 p.m., at Connaught Rooms.

October 19th, Tuesday.—SCHOOL OF ACCOUNTANCY STUDENTS' ASSOCIATION (MANCHESTER BRANCH).—Lecture, "Production and Industrial Progress," by Mr. Stockton, President Manchester Chamber of Commerce.

October 20th, Wednesday.—LONDON CHARTERED ACCOUNTANTS STUDENTS' SOCIETY.—Lecture, "Municipal Accounts," by Mr. William Cash, F.C.A., 6 p.m., at Institute of Chartered Accountants.

October 21st, Thursday.—LONDON SCHOOL OF ECONOMICS.—Public Lecture, "Forms of Industrial Self-Government," by Professor L. T. Hobhouse, 6 p.m.

October 22nd, Friday.—SCHOOL OF ACCOUNTANCY STUDENTS' ASSOCIATION (LONDON BRANCH).—Lecture, "An Earnest Study Talk to London Students," by Mr. R. T. McCutcheon, 7 p.m., Essex Hall, Essex Street, Strand, London, W.C.

October 27th, Wednesday.—LONDON CHARTERED ACCOUNTANTS STUDENTS' SOCIETY.—Lecture, "The Detection of Fraud in Accounts," by Mr. F. R. M. de Paula, O.B.E., F.C.A., 6 p.m., at Institute of Chartered Accountants.

October 28th, Thursday.—LONDON SCHOOL OF ECONOMICS.—Public Lecture, "Forms of Industrial Self-Government," by Professor L. T. Hobhouse, 6 p.m.

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The Fundamentals of Accountancy.—VII.

By Lawrence R. Dicksee, M.Com., F.C.A

(Sir Ernest Cassel Professor of Accountancy and Business Methods in the University of London).

In the following article Professor Dicksee discusses the Double Account System, explains its working, and shows how it differs from the ordinary commercial system of accounting.

XXIV.—The Double Account System.

Under the ordinary commercial system of accounting, transactions are recorded as they take place to the debit and credit of the respective accounts directly concerned, without any attempt being then made at the time to distinguish between those transactions that relate to Capital and those that relate to Revenue, as described in the preceding section. Under the Double Account system, however, a serious attempt is made to distinguish between Capital transactions and Revenue transactions from the outset, instead of waiting to differentiate between the two until the time arrives for the preparation of the usual periodical statement of accounts.

From what has already been stated, it will be evident that, in theory at least, it would be a simple matter to distinguish between these two classes of transactions at the source, by opening separate banking accounts for Capital and Revenue respectively, paying all Capital receipts into the Capital Banking Account, and drawing cheques thereon for the payment of all Capital Expenditure, and similarly paying all earnings (or Revenue) into the Revenue Banking Account, and drawing cheques thereon for all working (or Revenue) expenses. The obvious advantage of proceeding upon these lines is that we then link up the system of control over the actual Cash finances of the undertaking with our system of record or accounts. Every time it becomes necessary to pay money into the bank, one is obliged at the time to determine whether it relates to Capital or Revenue; and similarly every time one draws a cheque, one is obliged to determine at the time whether the payment is in respect of Capital or Revenue.

If it were always practicable to make these distinctions at the time, there would be a great deal to be said in favour of the general adoption of this system of duplicating bank accounts; but in practice it often

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happens that receipts or payments are partly in respect of Capital and partly in respect of Revenue, or that it is impracticable, without considerable delay, to determine exactly under which category they should be placed. Hence the attempt to operate Capital and Revenue items by means of distinct bank accounts is rarely made in practice. What goes by the name of the Double Account system may, perhaps, be best described as a system of keeping the accounts as nearly as possible as they would be kept, if it were practicable to have two separate banking accounts for Capital and Revenue transactions respectively.

Accordingly, the main difference between accounts kept upon the Double Account system and the ordinary (commercial) system is to be found in the form of the Balance Sheet, which is further discussed in Section X. Under the latter system the Balance Sheet is a summary of those outstanding balances appearing upon the Ledger after the Revenue Account for the current period has been completed. Under the former system, this Balance Sheet is in effect divided into two parts: the first part contains those items which are clearly receipts or expenditure in respect of Capital (i.e. Fixed Liabilities and Fixed Assets), a balance being then struck, showing the Working Capital of the undertaking; the second part (usually called the General Balance Sheet) contains the remainder of the Balance Sheet items, and the balance of Working Capital brought down from the preceding section. Apart, however, from this difference, which is essentially a matter of form, the distinctive feature of the Double Account system is that the Capital items are year by year set out in figures which represent actual receipts or payments, as the case may be, whereas under the ordinary commercial system the fixed assets normally appear in the Balance Sheet, not necessarily at their total original cost price, but rather at that amount of the original cost price which so far has not been charged against Revenue. The resultant figures are necessarily matters of opinion, whereas under the Double Account system the figures are essentially historical facts.

XXV.—Application of Double Account System.

The Double Account system is prescribed by law in this country for the accounts of British railways, and to gas, water, and electricity undertakings owned by parliamentary companies; but it is often voluntarily adopted by other concerns of a similar character, i.e. to concerns whose Working Capital is trifling as compared with their aggregate Capital Expenditure, whose continued operation depends upon their ability to keep their fixed assets always in a state of practical efficiency.

XXVI.—Maintenance under Double Account System.

An essential feature of the Double Account system is that not merely all expenditure upon current repairs and upkeep of equipment must be charged against Revenue (for this much is common to all sound systems of accounting), but that, further, all expenditure upon the replacement of worn out or discarded equipment is also charged against Revenue. Subject to the fulfilment of this condition, the Double Account system proceeds upon the assumption that there will always be in existence full value for the original Capital outlay, and that therefore no part of such original outlay need ever be charged against Revenue. If the

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system be carried out strictly, the result will be that the cost of repairing wastage is charged against Revenue at the time when such wastage is made good, and that no part of the cost is charged against the Revenue of the period that had the *use* of the wasted equipment. As compared with the ordinary commercial system, therefore, the Double Account system would seem to postpone charging the cost of renewals against Revenue until the last possible moment; but, on the other hand, it does ensure, in a way that the ordinary commercial system does not, that when that moment is reached the full cost of replacing worn out assets that are replaced shall be charged against Revenue.

XXVII.—Double Account System in Practice.

In practice, however, certain other differences between the two systems are noticeable. Under the Double Account system the ultimate charge against Revenue is the cost of the new equipment acquired to replace discarded equipment: under the ordinary commercial system the ultimate charge against Revenue is (or should be) the original cost of the equipment actually discarded, which may, of course, be more or less than the cost of replacement, according to circumstances. Another point of difference is that under the ordinary commercial system the cost of worn out equipment is (or should be) charged against Revenue during the period of its effective working life, irrespective of whether it is ever ultimately renewed or not; whereas, under the Double Account system any equipment that is not renewed (which includes, of course, any lost or wasted Capital Expenditure) never gets charged against Revenue at all. On the other hand, there is, of course, nothing to prevent those in charge of an undertaking under the Double Account system from charging against Revenue from time to time more than the actual expenditure to date upon renewals, if they think fit.

XXVIII.—Expenditure on Extensions.

Under the Double Account system both current repairs and renewals are charged against Revenue; but additional expenditure that results in the acquisition of fixed assets in addition to those that were in existence before, so that the equipment as a whole is enlarged, is naturally treated as further Capital Expenditure. Between these two extremes come in practice a number of intermediate cases, where the opportunity is taken, when renewing a worn out item of equipment, to replace it by another which is not an exact repetition of the original item, but something upon a larger scale (or improved design), and accordingly more expensive. The rule in these cases is that so much of the cost of the new items as might be taken to represent the present-day cost of an item exactly like that which is being replaced is chargeable against Revenue, and that the excess only is to be treated as additional Capital Expenditure. Anything that may be received upon the sale of old materials disposed of may, in these circumstances, be applied towards the relief of the Revenue charge, as the assumption is that there will always be increased Fixed Assets to justify the additional Capital Expenditure. The apportionment of cost as between Capital and Revenue in these cases is in all cases clearly a matter for the expert, but a few examples will illustrate the principles involved:—

1. A railway substituting new steel rails for worn out iron rails must charge against Revenue a sum equal to what would have been the cost of laying down new iron rails, minus the scrap value of the old

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rails sold, treating the excess cost only as additional Capital Expenditure.

2. A gas company, taking up an old section of 6 inch main, and laying down in place thereof a new 9 inch main, must charge against Revenue what would have been the present-day cost of laying down a new 6 inch main, minus the scrap value of the old main, and only capitalise the amount by which the cost of the 9 inch main exceeds the present-day cost of a 6 inch. main.

3. Where, on the other hand, the old equipment, instead of being taken out and disposed of, is applied to a new use, there is nothing to prevent the total cost of the new equipment from being treated as additional Capital Expenditure; but the cost of converting the old equipment to its new use must be borne by Revenue.

XXIX.—General Effect of Double Account System.

The exact difference between the Double Account system and the ordinary commercial system of dealing with the problem of wasting Fixed Assets will be seen more clearly when the ensuing section on Depreciation has been studied. It may be pointed out now, however, that there is not really any essential connection between the Double Account *form* of Balance Sheet and the Double Account *method* of dealing with the cost of replacing wastage of Fixed Assets. It would be possible to apply either form of account with either method of handling the problem of wastage; but, unless the contrary be clearly shown by the wording of the accounts, it is a reasonable assumption that where the Double Account form is employed, the Double Account method of dealing with replacements is also followed, and that where the ordinary commercial form of accounts is employed, at least a *bonâ fide* effort is being made to adopt the ordinary commercial system of charging losses arising from the wastage, or exhaustion, of Fixed Assets against the Revenue of the period in which such wastage or exhaustion takes place. The former ensures (or aims at ensuring) certainty at the expense of absolute accuracy; but so long, of course, as the cost of replacement is ultimately charged against Revenue, and so long as the Revenue is sufficiently large to bear the charge when made, all necessary provision has been made to ensure the permanence of the undertaking itself.

In the case of those undertakings to which the Double Account system is applied, the equipment ordinarily consists of such an enormous number of items that it may reasonably be expected that the amount of useful expenditure upon renewals in any one year is not likely to very greatly exceed the amount of actual wastage in any one year. Accordingly, if the undertaking can be operated at a profit at all, there is little danger of any difficulty arising in practice as to the financing of the cost of renewals from time to time. If desired, however, even in the case of the Double Account undertakings, there is nothing to prevent charges for renewals being made against Revenue in advance of the actual date of such renewal, thus providing in advance for at least a part of the ultimate cost of such renewals.

Audit Programmes and Procedure—VII.

By Andrew Binnie, F.C.A., C.A.

Mr. Binnie concludes this month his description of the way in which various items should be treated in accounts, and his suggestions as to examining the balances.

Debenture Interest.

Agree the total sum paid with a schedule of the payments to the individual Debenture Holders, as per the Register of Debenture Holders, setting out the gross amount, the period covered, the rate of interest, tax deducted (unless issued free of tax), and the net amount payable. Coupons or Interest Warrants should be produced in support of the individual payments. A separate Banking Account should be opened for each periodical payment of Debenture Interest, and the balance of the account agreed with the unclaimed interest as shown by an inspection of the schedule in which the individual amounts are marked off in course of comparison of the list with the coupons or warrants. If periodical payments be made inclusive of repayments of capital, as well as of payments of interest, see that the payments are correctly divided as between capital and income, for which purpose a redemption schedule should be available or be raised. Occasionally, Debentures or Bonds, sometimes called "Income Bonds," are issued, on which the interest is only payable *if the profits of the year* admit of payment. Whether or not interest is payable in any year on Bonds of this character may be a nice point depending on questions of necessary depreciation, the right to create Reserves and write down capital assets of a nominal nature out of profits, and so forth. The conditions attached to Debentures or Bonds of this type require, therefore, to be carefully studied.

Notes.

(a) In periods commencing from 5th April 1920, income-tax will be deductible from interest at the standard rate. Prior to 1920, if interest was paid out of profits brought into charge, tax was deductible at the average rate during the period of accrual of the profits, but if paid out of moneys not brought into charge, at the rate of tax at the time of payment.

(b) Interest on Debentures issued to raise funds for construction may be charged to Capital as part of the cost of construction. (*Hinds v. Buenos Ayres Tramways Co. Ltd.*, 1906, 2 Ch. 654.)

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Directors' Fees.

By reference to the articles of association, ascertain and agree the amount payable. If the fees are paid periodically, or for broken periods, as in the case of a director ceasing to act, see that the articles express that the fees are to be at the rate of so much per annum, otherwise the fees are only payable for a complete year, or whatever term is fixed by the articles. The fees may not be paid free of tax unless so voted by the shareholders. It has been suggested that a provision in the articles to the effect that the fees be paid free of tax is illegal and invalidates the payment of any fees at all. If the directors renounce their fees, a minute to that effect passed at a meeting at which all the directors are present, and signed by the chairman, may suffice as evidence, but strictly speaking, the renunciation ought to be under seal. When it is left to the shareholders in general meeting to fix the remuneration, see a minute signed by the chairman of the meeting. In the case of a Managing Director, see that all payments are in accordance with the company's agreement with him.

Directors' Travelling Expenses.

See that the payment of travelling expenses for attending Board meetings is authorised by the articles of association, as otherwise the expenses are presumed to be covered by the fees.

Debenture Trustees' Remuneration.

See that the amount provided for in the Trust Deed has been paid or provided for in the accounts.

Transfer Fees.

The cash credited to this account should be agreed by reference to the number of transfers appearing in the Transfer Register.

Auditors' Fees.

The fees are usually fixed in the first instance by the Board of Directors, and subsequently approved by the shareholders at the general meeting, after which the fees are usually voted annually at the general meeting, though the shareholders sometimes leave it to the directors to fix the fee from year to year, having regard to the amount of work and responsibility involved. The amount should be reserved in the accounts from year to year.

Preference Dividends.

Agree the total dividend paid with the aggregate of the total dividend paid as per a schedule of the Preference Shareholders made up from the Register of Shareholders at the date to which the payment of the dividend relates, and setting out the gross amount as fixed by the memorandum and articles of association, the tax deducted and net amount payable. See that a resolution passing the dividend has been

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duly placed on the directors' minutes, and is subsequently confirmed by the shareholders, and that it is in conformity with the memorandum and articles. See that income-tax has been deducted from the dividends, unless, as is most unusual, the dividend is payable free of tax. The net amount of each dividend should be transferred to a separate Banking Account, and the balance of the Banking Account agreed with the dividends not claimed as shown by the schedule, the dividends paid being marked off in the schedule in course of comparison with the Dividend Warrants. It has been held by the House of Lords that Preference Shareholders are not entitled to participate in colonial income-tax relief (*Accountant*, 31st July 1920), but see Finance Act, 1920, Section 27 (5), for an enactment on the subject apparently overriding this decision. The precise meaning of the section may, however, engage the attention of the Court, especially where only part of the profits are colonial. If the Preference Dividends are cumulative and in arrear, a note of the amount in arrear should be made on the face of the Balance Sheet. If an interim dividend has been paid, see that the directors have power to declare it. As to rate of deduction of tax, see note under heading of Debenture Interest.

Ordinary Dividends.

In the case of interim dividends see that a resolution declaring the dividend has been duly passed by the directors, and that they have power under the articles to make the declaration. In the case of final dividends, see that the dividend is as recommended by the directors and confirmed by the shareholders in general meeting, and in accordance with the articles of association. Agree the total dividend paid with the aggregate of the dividends due to the individual shareholders as per a schedule prepared from the Register of Shareholders at the date to which the dividend relates, showing gross amount payable, tax deducted, and net amount payable, unless the dividend is specifically declared free of tax. A cheque for the total net dividends should be drawn, and the amount transferred to a separate Banking Account. The balance of the separate Banking Account should be agreed with the total of the unclaimed dividends as shown on the schedule, in which the dividends paid should have been duly marked off in course of comparison with the Dividend Warrants.

NOTE.—Many Boards of Directors instruct the auditors to check and agree all dividend and interest payments, checking the respective lists relating thereto with the Registers, and examining and initialling the Dividend Warrants before their issue.

Appropriation Account.

This account takes various forms, and has even been known to close with a deficiency, for example, by treating Debenture Interest (a

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charge upon the business irrespective of profits) as an appropriation of profits, and that although the interest payable exceeded the profits. The account should contain the balance of undivided profits brought forward from the previous year, the amount of profits for the year, the amount to be carried to Reserve, the amount of dividend to be paid, and the resulting balance to carry forward to the following year. An Appropriation Account is not usually part of a Balance Sheet, but is scheduled to it, and is useful as a connecting link with the figures of the preceding year. The auditor should see that the appropriations are in accordance with the minutes of the directors' and shareholders' meetings, and have been duly given effect to in the books, for it occasionally happens that resolutions to carry sums to Reserve or write down leases are overlooked by the company's officers.

Partners' Salaries, Capital Accounts, Drawing Accounts and Loan Accounts, Interest on Capital and Interest on Drawings, &c.

A summary should be made of the conditions laid down in the Partnership Deed as to each of these matters. If there be any points as to accounting in the agreement which are obscure, they should be cleared up by means of a supplementary agreement. A common practice is, at the end of the partnership year, to credit the Capital Account of each partner with the amount of his share of the profits and interest on his capital, less his drawings and interest thereon, and to carry forward the resulting balances as capital. As a result, each partner's capital may vary from year to year. This practice should not be followed unless it is in accordance with the partnership deed. It may be that any surplus over the amount of capital for which the deed stipulates should be treated as a loan to the partnership, ranking as between the partners before the stipulated amount of capital and carrying interest at a different rate, or there may be no provision at all to meet the case. Where a Partner's Capital Account shows a deficiency, it is also a common practice to charge interest on the amount of the deficiency, regardless of the fact that this charge may not be authorised by the partnership deed. Any departure such as this from the terms of the deed should be brought to the notice of each partner. The auditor should see that any borrowings of the firm's money by a partner, or any moneys due by a partner to the firm for goods supplied by the firm to him or such like are not included among Sundry Debtors, but clearly set out in the accounts. He should also see that the partners sign the accounts as correct. It is not unusual for income-tax paid by the firm to be charged to profits as if it were an expense. Unless, however, the partners' interest in capital, share of profits, and salaries are in strict ratio, and they have no claim to relief, this method of charging income-tax is not correct. Tax should be treated as a

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drawing, and charged to the partners' individual accounts according to their individual liability, which is based upon the partner's salary, interest on capital less interest on drawings, and his share of the profits after deducting these items and taking into account any claims for relief. Interest on drawings should be charged where the drawings are unequal as to date and amount. Each partner should be asked to agree the amount of his drawings. Where partners are lax as to control of drawings, a dishonest cashier has been known to appropriate money and enter it as partners' drawings, and—an extreme case—the drawings of a deceased partner have been known to continue (according to the books) for some time after his demise. If there are any agreements with third parties restricting drawings, see that the agreements are complied with. Clauses in the partnership agreement as to computing goodwill in the event of a partner dying or retiring are not always clear, especially as to what is to be considered to be net profit. The auditor should study these clauses carefully, and, if necessary, have them amended. If any third party have a right to share in the profits, the auditor should see that the method in which the share is to be calculated is clearly set out in the agreement relating thereto, and that the correct amount is duly charged in the Profit and Loss Account.

Books of the Month.

MANUAL OF COST ACCOUNTS. By H. JULIUS LUNT, A.C.A. $8\frac{1}{2} \times 5\frac{1}{2}$, viii+124 pp. 6s. n. [This work deserves a high place in the order of merit of books on Costing. The author has not confined himself to any particular class of manufacture, but deals with a large variety of accounts. A number of questions on Cost Accounts set at the recent examinations of the Institute and Society are also included. It is a book we can strongly recommend to students.]

GRAIN, FLOUR, HAY, AND SEED MERCHANTS' ACCOUNTS. By GEORGE JOHNSON, F.S.S., F.C.I.S. Second edition. (The Accountants' Library, Vol. X.) $8\frac{1}{2} \times 5\frac{1}{2}$, ix+98 pp. 7s. 6d. n.

BAKERS' ACCOUNTS. By F. MEGGISON, Chartered Accountant. (The Accountants' Library, Vol. L.) $8\frac{1}{2} \times 5\frac{1}{2}$, xii+107 pp. Second edition. 10s. n.

RINGWOOD'S "PRINCIPLES OF BANKRUPTCY." Thirteenth edition, by ALMA ROPER. $8\frac{1}{2} \times 5\frac{1}{2}$, xlv+496 pp. 25s. n.

INCOME AND EXCESS PROFITS TAXES; *The Financial Times* Income Tax Guide. 1920 edition. $8\frac{1}{2} \times 5\frac{1}{2}$. 36 pp. (Paper cover). 1s. n.

MODEL ANSWERS TO INTERMEDIATE BOOKKEEPING AND FINAL ADVANCED ACCOUNTING PAPERS set for the Examinations of the Incorporated Institute of Accountants, Commonwealth of Australia, May 1920. Prepared by E. PYKE, F.I.C.A., A.S.A.A. $11 \times 8\frac{3}{4}$, 42 pp. (Paper cover). 3s. n.

INVESTMENT TERMS EXEMPLIFIED. By C. R. STILES, F.S.S., F.R.G.S. $6\frac{1}{2} \times 4$, 36 pp. 2s. 6d. [This little book contains about 125 definitions, and should prove a useful glossary to all who are in any way interested in investment or Stock Exchange transactions.]

£1 DECIMAL STOCK EQUIVALENTS FROM 40 $\frac{1}{2}$ TO 100 PER CENT. 8×5 , 98 pp. 5s. n.

THE GAS WORLD: Analysis of Municipal Gas Accounts, 1918-19. $10\frac{3}{4} \times 8$. 21s. n.

SUPER TAX TABLES. By G. O. PARSONS, F.C.I.S. $8\frac{1}{2} \times 5\frac{1}{2}$, 16 pp. (Paper cover). 1s. n.

A Company Secretary's Duties—VI.

By W. H. Fox.

(Author of "The Company Secretary.")

Under the heading of "Office Books" Mr. Fox deals with those which are not in any way used as Books of Account and are not included under that heading.

Office Books.

They may be roughly described as follows:—(1) Letter Book, (2) Letters Out Book, (3) Specimen Book, (4) Form for sending out cheques, (5) Register of Letters received, (6) Receipt Book, (7) Annual Record, (8) Agreement Book.

In former days the custom of keeping a letter book, in which all letters written were press-copied, was universal, this book being carefully indexed from day to day with two references on each letter, namely, to the folio of the previous letter written to the same person, and a reference to the next communication appearing in the book.

Nowadays, however, in most offices, letters being typewritten, and a duplicate copy taken at the same time, instead of having copies of the letters bound up in one book, it is more convenient to have the letters sorted out in batches all relating to the same business.

In an article of this nature it may perhaps be deemed superfluous to refer in detail to the manner in which letters should be sent out, but if the Secretary would realise it, time would often be saved to his correspondents if he would fold the written matter on the letter *outside* instead of *inside*, as is usually the case. In opening a large quantity of correspondence the recipient will thus be enabled to see at once what is the subject matter of the letter, and gather the whole of its contents before the man who has received a letter carefully folded up with the writing *inside*, has been able to unfold the document.

It is also convenient for reference to have the day of the week as part of the date on the letter, and it is perhaps needless to point out the advantage to the recipient of having the communication divided up into paragraphs. Sentences should be short, and complex constructions should be avoided as far as possible.

Letters Out Book.—As soon as letters are signed and enclosed in the envelopes and properly stamped, they should, immediately before posting, be entered in the Letters Out Book with the names and addresses stated in full, a special column being kept for the amount of the stamp. The clerk actually posting the letters should initial the book, and in the case of allotment letters or dividend notices, where it is important a record should be retained for future reference, particular care should be exercised in the entering and calling over of the entries prior to their being signed for by the posting clerk.

In cases where different companies occupy the same office it may be the best arrangement to have one general Letters Out Book, and at the end of the month a summary of the charges for stamps against each company will be made, and the debit on the Stamp Account in the Petty Cash Ledger will be apportioned accordingly. For the purposes of reference, the month and year should be legibly written on the top of

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each page of the book, and in addition to the cash column for stamps, there should be one mentioning the name of the particular company which has to be charged at the end of the month.

Day by day a careful index in a separate book should be kept, which should be compiled from the Letters Out Book, with a reference to the page on which the entry occurs. In some cases it may be thought desirable to have the right-hand opening of the book kept entirely available for short particulars as to what the letter refers to, but the adoption of this course will depend upon the nature of the company's business.

Letters Received Register.—This book may be arranged on the same lines as the previous one, being entered up immediately the letters arrive at the office and have been opened, and in this case probably the suggestion of keeping the right-hand opening of the page for short particulars of the letters received may be adopted with advantage. The letters should be entered in the book under a consecutive number, and this number should be written on the letter in blue pencil.

Callers Book.—It is important that the office staff should become accustomed to taking careful note of all callers' names and business, and these records are best kept in a book in which also telephone calls can be kept with short particulars of messages received. Also, separate slips should be kept for telephone messages, so that they can be handed on to the clerk who has to deal with the subject.

Form for sending out Cheques.—Instead of writing letters with each cheque sent out, it is convenient to have in book form a printed letter with a counterfoil attached, giving the amount of the cheques issued and short particulars of the same. These counterfoils should be consulted regularly to see that receipts have been returned for the amounts paid, and the number of the voucher, as appearing in the Bank Account, should be marked in red ink or blue pencil on the receipt itself.

These receipts for the purposes of subsequent reference, and for the use of the auditors, may conveniently be affixed in a separate guard book, and thus be available immediately for reference.

The alternative to obtaining a special receipt for each cheque is for the receipt itself to appear upon the cheque, and in this case a slip will be sent with the remittance, stating that no acknowledgment is required, the memorandum at the bottom of the cheque forming the necessary receipt. The special form of cheque referred to may be printed as follows :—

"MERRIE ENGLAND " LIMITED.

No. 54321.

London, E.C., 2nd November 1920.

TO THE SECURITIES BANK LIMITED,

Bank House, Moorgate Place, E.C.2.

Pay to Messrs. X. Y. Z. the sum of Fifty and Twopence, provided the Receipt at and dated.	£ 50. -four foot	Pounds Three Shillings is duly stamped, signed,
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(Signed) For and on behalf of "Merrie England " Limited.

A. B., Secretary.
C. D., Accountant.
E. F., Director.

£54 3s. 2d.

TWO
PENCE

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Received from "Merrie England" Limited, the above-mentioned sum as per particulars furnished.

Signature (*Signed*)

Twopence

X. Y. Z.

Receipt.

Date 4th November 1920.

It must be remembered that the ordinary receipt stamp for items above £2 has to be put upon a form of receipt at the bottom of the cheque in addition to the impressed stamp appearing on the cheque when issued by the bankers.

Specimen Book.—This book should contain a specimen copy of all printed matter issued by the company. The book should be made of plain cartridge paper and the pages be numbered, and at the beginning should appear a form of index so that documents may be readily referred to. To mention only a few of the documents it should contain, one may refer to the Company's Annual Report and Accounts, notices of extraordinary meetings, dividend warrants, bonds, share certificates, prospectuses, &c.

A note should be placed at the head of each page containing these printed forms, stating the date on which they were issued, and in the case of a circular or other documents having been authorised by the Board to be issued, a reference to the Minute should also be made.

This raises the question of the descriptive matter appearing on the outside of the company's books, and it is desirable, in the case of certificate books and others of a like nature, to have some few extra copies of the certificate printed, and to affix one on the outside front cover of the book. A glance at the book will show at once the nature of its contents, and it is unnecessary to emphasise the importance, in an office where the affairs of the company are recorded in a considerable number of books, of being able to refer to them with the least possible delay.

This procedure will not apply to books containing simple ruled forms as in the case of a Ledger or Cash Book, where the ordinary endorsement on the back or on the front in gilt letters is the usual mode of distinguishing one book from another.

It will, however, be found a convenience, in ordering account books, that when a new cash book is ordered it should be bound in the same colour as the previous book, and have a large distinctive number upon it, for the purpose of reference, on the left-hand upper corner of the front cover as well as on the back of the book.

Another point which should be mentioned is that books of a different class may, for ready reference, have pasted upon the front outside cover a label containing the name of the book and the consecutive number in its class, which label should be of a distinctive shape or colour.

Where several companies are in the same office, a distinctive colour for the binding of the account books of each company may be adopted with advantage.

Annual Record.—This is a useful book for reference, and is especially applicable in an office where more than one business is conducted. It is only possible to suggest the headings of the information which the Secretary usually requires before him in relation to any particular com-

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pany. The following general headings may be found of use, and these can be enlarged upon or curtailed from time to time as the Secretary may find desirable. These may be mentioned as follows :—(1) Registration of company and consecutive number, (2) date of prospectus issued, (3) first allotment of shares, (4) due dates of allotment moneys and calls, (5) application made to Stock Exchange, (6) statutory meeting, (7) ordinary general meeting, (8) annual return with list of shareholders, (9) preference share dividend issued, (10) debenture interest issued, (11) interim dividend paid, (12) final dividend paid, (13) dates of Board meetings held, (14) extraordinary general meeting held, (15) additional documents filed at Somerset House during the year.

A separate page will be kept for each year, and thus, by reference to the previous annual list, the Secretary is reminded of those matters which require his attention from time to time.

In the case of several companies in one office, each company will have its annual records in a separate volume, or if found more convenient, the records of the various companies could be bound up in one volume.

The Agreement Book, which we now propose to deal with, should contain copies of all contracts entered into by the company, so that the Secretary may have ready access to the same at any time, and should also contain copies of powers of attorney, instructions to manager, and documents of a similar character.

It is impossible to specify in such an article as the present any complete list of all the possible documents which would be included by any particular company in its Agreement Book, but the following are referred to as being examples of those which will be required :—

(1) Manager's agreement abroad, (2) Manager's agreement at home, (3) Power of Attorney, (4) Instructions to Manager going abroad, (5) Lease of premises, (6) Promotion agreement, (7) Purchase agreement covering fully paid shares, (8) Novation agreement, and (9) Trust Deed.

A summary of their contents may be found useful :—

(1) *Manager's Agreement Abroad*.—Date of engagement and length of appointment—date of sailing to destination abroad—extent of powers regarding superintendence of company's properties and works and business abroad—employment of clerks, labourers, &c., and fixed terms of the appointment of such employees—power to discharge, dismiss, or suspend them from office, subject to any special directions of the Board—whole time and attention to be given to the company's affairs abroad, and an undertaking diligently and faithfully to carry out such duties, and to apply to the Board for special instructions where it may be considered necessary—to carefully supervise and superintend all expenditure on the company's property, and check and verify the same, and to be responsible for the books and accounts of the company being properly and accurately kept—to render monthly reports and accounts to the head office in London, and to estimate in advance and advise the Board as to probable future expenditure and receipts—the company to be at liberty to require the manager to continue his services for a further period of five years, notwithstanding any fixed period for the agreement, the company may dismiss the manager in the event of breach of duty or misconduct—reasonable travelling and hotel and other expenses properly incurred by the manager to be paid by the company—the company to provide the manager with first-class passage to his destination, and expenses on the route, and first-class passage home—if the manager is ill, the company may, after a period of three months, reduce the salary

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of the manager to half his current rate of pay, and give him notice to determine the appointment to expire at the end of twelve months—on the determination of the agreement all books and documents, plans, instruments, &c., to be handed over to the company—an agreed rate of salary to be stated to be paid direct to the manager abroad or to his bankers or agents as he may direct—the manager to be further entitled beyond his salary to a commission of $2\frac{1}{2}$ per cent. on the profits of the company, but meanwhile to undertake not to accept any fee, gratuity, or commission from any outside person, under pain of dismissal without notice, or salary in lieu of notice—all disputes under this agreement to be referred to two arbitrators.

(2) *Manager's Agreement at Home.*—This will not require to be of so lengthy or complicated a nature as the agreement of a manager going abroad where the directors lose touch with him, and will provide generally for the exercise by the manager of the duties assigned to him by the Board from time to time—the date up to which he is to hold office—terms as to complying with the regulations given and made by the directors, and undertaking faithfully to serve the company and use his best endeavours to further the interests thereof—the amount of salary with stated increases from year to year, and share of profits—and terms as to determination of the agreement.

(3) *Power of Attorney.*—This may be given by the company to its manager abroad to act in connection with its affairs, and may provide for the completion of the property purchase agreement abroad, and the due registration of the property in the name of the company—powers to enter into any contract or agreement with the object of selling any of the concessions or rights of the company abroad, subject to the instructions of the directors, to demand, sue for, and enforce payment, and to give effectual receipts and discharges for all moneys, shares, debentures, &c.—to appoint and employ any solicitors or agents to act for the company.

As regards the full Power of Attorney, this must be prepared by the solicitors, but any law stationers will supply a printed form which contains very comprehensive powers, and working from this the directors can cut out all such powers as they may deem it unnecessary to grant to the manager or other person employed in dealing with the company abroad.

It may be noted that a Power of Attorney can only be made irrevocable for a term of twelve months, but the power remains in force until it is withdrawn. In view of the possibility of a Power of Attorney having been withdrawn, it is desirable for the holder to have it renewed from time to time.

(4) *Instructions to Manager Going Abroad.*—The detailed instructions will be conveyed by means of a letter in which the manager's agreement will be handed to him with the Power of Attorney, and instructions as to the legal advisers he should call upon on arrival at his place of destination, through whom he will arrange to register his Power of Attorney at once. The manager will be supplied with a registered cable address of the company abroad, and for cables from him to London, and will receive instructions as to the amounts for which he will be permitted to draw upon the company in London, meantime opening a local banking account, a cable advice to be sent to the company when the formalities abroad have been complied with, and all reports and communications to the Board in London to be numbered consecutively for the purpose of reference.

A Company Secretary's Duties.

(5) *Lease of Premises.*—This document relating to the lease of the company's premises in London will be prepared by the solicitors, but as it may have to be referred to by the directors from time to time, a complete copy should be included in the Agreement Book. Any lease of premises abroad for certified copies of title deeds relating to property purchased, should be obtained from the manager, and translations should in the same way be kept in London available for reference.

(6) *Promotion Agreement.*—The promotion expenses, in accordance with the terms mutually arranged, will either be payable by the company, or by the vendor, or by a separate promoter who undertakes to bring out the company and provide the necessary cash capital. If a separate promoter is employed, the directors must see that he has sufficient financial support behind him to make a successful issue, more especially nowadays, as the cost of advertising and underwriting has been so greatly increased. The agreement will provide for the payment by the promoter or promoters of the expenses of registering the company, the amount of capital to be underwritten by substantial underwriters, and the payment of a minimum sum for advertising, and also for the payment of the necessary fees to solicitors, brokers, and others in connection with the issue of the prospectus, and the necessary outlay for the distribution of the same.

(7) *Purchase Agreement.*—This will provide for the amount of the purchase money, and the deposit to be paid, and also the date at which the purchase is to be completed. The agreement will either be prepared between the vendor and the company direct, in which case it cannot be executed by the company until the registration has been effected. In this case it is usual to refer to the agreement in the Memorandum of Association, providing that the first business of the company shall be to enter into the same. An alternative way of dealing with the matter is for an agreement to be entered into between the vendor and with a trustee for the company about to be registered, and when the contract is taken over by the company, a short "Novation Agreement" is entered into, and the duties of the trustee are at an end. The Secretary of the proposed new company usually acts as Trustee.

If part of the consideration is payable in fully paid shares, the agreement will have to be filed at Somerset House before such shares can be allotted (see Companies Act, 1908, Section 88B).

(8) *Novation Agreement.*—The Novation Agreement above referred to is endorsed on the original contract when the company takes over the liability for the purchase of the property from the vendor, and as it is usually only a short document, the form may be given in full as follows:—

NOVATION AGREEMENT (for Endorsement on Original Purchase Contract).

AN AGREEMENT made this 29th day of May 1920, between A. B. C. of the First Avenue Hotel, London, of the first part, D.E.F. of the second part, and "Merrie England Limited" of Great Swan Alley, London, E.C. (hereinafter called the Company) of the third part. WHEREAS since the execution of the within written Agreement the Company has been incorporated in accordance with the intention in that behalf referred to in such Agreement.

NOW IT IS HEREBY MUTUALLY AGREED AS FOLLOWS:—

1. The within written Agreement shall be and the same is hereby ratified and adopted by the Company in the same manner as if the

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Company had been incorporated prior to the date thereof, and had duly authorised the said D.E.F. to enter into the same on its behalf.

2. The said D.E.F. shall henceforth be discharged from all liability under or in respect of the said Agreement.

IN WITNESS WHEREOF the parties hereto of the first two parts have hereunto set their hands and seals, and the party hereto of the third part hath caused its Common Seal to be affixed the day and year first above written.

Signed, sealed and delivered by the above-named } A.B.C.
A.B.C. and D.E.F. in the presence of } D.E.F.



ALFRED DAVIT,
Solicitor,
Lincoln's Inn Fields, W.C.

The Common Seal of "Merrie England"
Limited was hereunto affixed in the presence
of

I.K.L. }
M.N.O. } *Directors.*
D.E.F. *Secretary.*



(9) *Trust Deed.* A Trust Deed when prepared is made for the benefit of debenture-holders, and it will provide for the appointment of Trustees to hold certain properties as security for subscribers, or subsequent holders, of the Debentures. The Debenture itself will appear in a schedule to the deed, and it is a document which the solicitors must prepare after the conditions of the Debenture issue have been duly decided upon by the Directors and their financial advisers.

Under certain conditions where default has been made in connection with the payment of interest on Debentures or otherwise, as provided in the deed, the Trustees may have to begin a Chancery action in order to enforce the terms of the Debentures and the deed for the benefit of the debenture-holders, and appoint a Receiver and Manager for the conduct of the company's business with a view to realisation to the best advantage.

The above brings the description of the Office Books to an end, and it is not considered possible to give any hard and fast lines upon which the office letters and papers, &c., are to be kept. Each company must arrange its documents and correspondence in accordance with its own individual requirements, and no attempt is made to describe the merits or otherwise of schemes put forward by so-called office experts, who supply special files, card indexes, duplicating machines, and such like appliances, which it is alleged offer great facilities for conducting the work of an office with economy and simplicity, and afford other and numerous (but so far as the writer is concerned, undiscovered) advantages to the Company Secretary.

Income Tax Practice—VII.

The student will find the pro forma examples of E.P.D. liability in the following article very useful. The full working is given and the way in which the liability is calculated is clearly shown.

Excess Profits Duty.

Before proceeding further with this duty, it will be well to consider a few practical examples of liabilities. The first taken will be that of a limited company having the following figures:—

<i>Profits.</i>				<i>Capital.</i>			
£				£			
Year to 31 December	1911	..	24,000	At 31 December	1910	..	184,000
"	1912	..	33,000	"	1911	..	192,000
"	1913	..	28,000	"	1912	..	206,000
"	1914	..	14,000	"	1913	..	210,000
"	1915	..	15,000	"	1914	..	205,000
"	1916	..	28,000	"	1915	..	248,000
"	1917	..	42,000	"	1916	..	252,000
"	1918	..	56,000	"	1917	..	254,000
"	1919	..	35,000	"	1918	..	250,000
"	1920	..	24,000	"	1919	..	180,000

The pre-war standard would be :—

1912	..	..	£ 33,000
1913	..	..	28,000
			<hr/>
			2) 61,000
			<hr/>
			£30,500
			<hr/>

To this would be added the £200 allowance, making £30,700.

The pre-war average capital would be :—

1911	..	..	£ 192,000
1912	..	..	206,000
			<hr/>
			2) 398,000
			<hr/>
			£199,000
			<hr/>

It should be noted that the capital at the *beginning* of the year is taken.

The capital adjustments would be :—

	£		£		£		Increase	Decrease
							£	£
1914	..	210,000	—	199,000	=	11,000	at 6%	660
1915	..	205,000	—	199,000	=	6,000	" 6%	360
1916	..	248,000	—	199,000	=	49,000	" 6%	2,940
1917	..	252,000	—	199,000	=	53,000	" 9%	4,770
1918	..	254,000	—	199,000	=	55,000	" 9%	4,950
1919	..	250,000	—	199,000	=	51,000	" 9%	4,590
1920	..	180,000	—	199,000	=	19,000	" 6%	—
								1,140

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The assessments would be:—

			£	Excess £	Deficiency £
1914	Less	Pre-War Standard ..	14,000		
		Increased Capital ..	£30,700 660		
			31,360		
			50%) 17,360		8,680
1915	Less	Pre-War Standard ..	15,000		
		Increased Capital ..	£30,700 360		
			31,060		
			60%) 16,060		9,636
1916	Less	Pre-War Standard ..	28,000		
		Increased Capital ..	£30,700 2,940		
			33,640		
			60%) 5,640		3,384
				Deficiency to 1916 ..	£21,700
1917	Less	Pre-War Standard ..	4,000		
		Increased Capital ..	£30,700 4,770		
			35,470		
			80%) 6,530	5.22	
The Deficiencies to date being £21,700, and the Duty £5,224, there would be no charge for 1917 and a net deficiency to carry forward of £16,476.					
1918	Less	Pre-War Standard ..	56,00		
		Increased Capital ..	£30,700 4,950		
			35,650		
			80%) 20,350	16.280	
Setting off the 1918 liability of £16,280 against the deficiencies brought forward this is a net deficiency to carry forward of £196.					
1919	Less	Pre-War Standard ..	35,000		
		Increased Capital ..	£30,700 4,590		
			35,290		
			40%) 290		116
The net deficiency becomes £312.					
1920	Less	Pre-War Standard ..	24,000		
			30,700		
			6,700		
	Less	Decreased Capital ..	1,140		
			60%) 5,560		3,336

The result of the whole period to 31st December 1920 is that there is a net deficiency in hand of £3,336 + £312 = £3,648.

The next example is that of a partnership in which A. & B. were the partners. On 1st October 1919 the business was converted to a limited company, A. & B. Ltd., and the majority of the shares were taken up by A. & B. In the year to 30th September 1920, directors' fees of £2,000

Income Tax Practice.

were paid to the former partners. As partners, A. & B. shared profits equally. A. also carried on another business C. D.

The applicable figures are as follows :—

Profits.				Capital.			
		A. & B.	C. D.			A. & B.	C. D.
		£	£			£	£
Year to 30th Sept.	1911 ..	1,640	370	At 30th Sept.	1910 ..	10,500	2,400
" "	1912 ..	1,080	560	" "	1911 ..	11,200	2,300
" "	1913 ..	1,250	620	" "	1912 ..	15,400	1,800
" "	1914 ..	1,520	1,040	" "	1913 ..	16,200	2,200
" "	1915 ..	1,860	1,260	" "	1914 ..	17,000	2,100
" "	1916 ..	2,400	1,580	" "	1915 ..	21,000	2,300
" "	1917 ..	3,500	1,050	" "	1916 ..	23,500	1,900
" "	1918 ..	5,200	820	" "	1917 ..	28,600	2,100
" "	1919 ..	4,000	260	" "	1918 ..	29,000	2,000
" "	1920 ..	3,400	150 loss	" "	1919 ..	27,400	1,200

The pre-war standard would be :—

A. & B.			C. D.		
		£			£
1911	.. ..	1,640	1912	.. ..	560
1913	.. ..	1,250	1913	.. ..	620
		<u>2)2,890</u>			<u>2)1,180</u>
		<u>£1,445</u>			<u>£590</u>
		+ £200			+ £200

The pre-war average capitals would be :—

A. & B.			C. D.		
		£			£
1910	.. ..	10,500	1911	.. ..	2,300
1912	.. ..	15,400	1912	.. ..	1,800
		<u>2)25,900</u>			<u>2)4,100</u>
		<u>£12,950</u>			<u>£2,050</u>

The capital adjustments are :—

A. & B. & A. & B., Ltd.					Increase	Decrease
	£	£	£		£	£
1914 ..	16,200	— 12,950	= 3,250	@ 7 %	.. 227	.. —
1915 ..	17,000	— 12,950	= 4,050	@ 7 %	.. 283	.. —
1916 ..	21,000	— 12,950	= 8,050	@ 7 %	.. 563	.. —
1917 ..	23,500	— 12,950	= 10,550	@ 11 %	.. 1,160	.. —
1918 ..	28,600	— 12,950	= 15,650	@ 11 %	.. 1,721	.. —
1919 ..	29,000	— 12,950	= 16,050	@ 11 %	.. 1,765	.. —
1920 ..	27,400	— 12,950	= 14,450	@ 11 %	.. 1,589	.. —

Those of C. D. are :—

1914 ..	2,200	— 2,050	= 150	@ 7 %	.. 10	.. —
1915 ..	2,100	— 2,050	= 50	@ 7 %	.. 4	.. —
1916 ..	2,300	— 2,050	= 250	@ 7 %	.. 17	.. —
1917 ..	1,900	— 2,050	= 150	@ 7 %	.. —	.. 10
1918 ..	2,100	— 2,050	= 50	@ 7 %	.. —	.. 4
1919 ..	2,000	— 2,050	= 50	@ 7 %	.. —	.. 4
1920 ..	1,200	— 2,050	= 850	@ 7 %	.. —	.. 60

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The assessments are :—

		A. & B.		Excess	Deficiency
		£	£	£	£
1914 ..	Pre-War Standard ..	£1,645	1,520		
Less	Increased Capital ..	227			
		<u>1,872</u>			
		50%)	352		176
1915 ..	Pre-War Standard ..	£1,645	1,860		
Less	Increased Capital ..	283			
		<u>1,928</u>			
		60%)	68		40
1916 ..	Pre-War Standard ..	£1,645	2,400		
Less	Increased Capital ..	563			
		<u>2,208</u>			
		60%)	192	115	
1917 ..	Pre-War Standard ..	£1,645	3,500		
Less	Increased Capital ..	1,160			
		<u>2,805</u>			
		75%)	695	521	
1918 ..	Pre-War Standard ..	£1,645	,200		
Less	Increased Capital ..	1,721			
		<u>,366</u>			
		80%)	1,834	1,46	
1919 ..	Pre-War Standard ..	£1,645	4,000		
Less	Increased Capital ..	1,765			
		<u>3,410</u>			
		50%)	590	29	
1920 ..	Pre-War Standard ..	£1,645	3,400		
Less	Increased Capital ..	1,589			
	Addition to £200 ..	438			
		<u>3,672</u>			
		55%)	272		

The 1920 addition of £438 is :—

$$1/5 (\text{£}4,000 - (\text{£}3,400 - \text{£}1,589)) = \text{£}438.$$

The additions to the £200 allowance for C.D. would be : —

1917 ..	1/5	(£2,000 — £1,050 + £10)	= £188	— £90	= £
1918 ..	1/5	(£2,000 — 820 + 4)	= £235	— £90	= £1
1919 ..	1/5	(£2,000 — 260 + 4)	= £347	— £90	= £25
1920 ..	1/5	£4,000			= £80

EDITORIAL.

Stock Exchange Transactions.

PART III.—(*Concluded*).

The Stock Exchange does not in its dealings recognise any parties outside its own membership, therefore, in considering the contract between a broker and a jobber, it must be borne in mind that no matter what instructions are given to a *broker* by his principal, any bargain made with the *jobber* must be carried out in accordance with the rules and regulations of the Stock Exchange. It is also a rule of the Exchange that no member shall bring legal proceedings to enforce any claim arising out of a Stock Exchange transaction against another member or defaulter without the consent of such member or of the Committee. A member *may*, of course, attempt to enforce his claim by law, but as this renders him liable to expulsion, such an action is seldom if ever resorted to.

All contracts on the Exchange are made subject to the reservation of the right of one contracting party to rescind the contract if the other fails to complete, and to carry out the transaction with another party at the market price, claiming against the original contracting party for any loss sustained.

A member wishing to enforce completion of any contract must give notice to the official broker appointed by the Committee and instruct him to buy or sell, as the case may be, and this is done by public auction in the House.

Where instructions have been given to "buy in," an hour's notice of the intended purchase must be posted up in the Stock Exchange. The "buying in" broker then renders a contract note for his purchase to the broker who instructed him, and hands over the Securities. The contract note is then passed on to the member against whom the "buying in" has taken place, and the original contracting party who is not in default can now be placed in the same position as if the original contract had been duly completed.

Similarly, if failure is made by a buyer, in delivering the "ticket" (it will be remembered, in a previous article, reference was made to "ticket day") before 12 o'clock on "ticket day," the person who has to deliver the Securities may assume that default has been made and may "Sell out" the Securities.

Delivery.

The question of what constitutes a good "delivery" of stocks and shares is important. It is a rule that all bonds are considered to be good unless much torn or damaged or a material portion of the wording has been obliterated.

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If by error bonds that have been "drawn" for redemption are delivered, the purchaser must hand them back to the person holding them at the time the "drawing" was made, providing undrawn securities are tendered to him in exchange.

Bonds must have attached to them all coupons for interest which are not due for payment at the time of purchase; otherwise the delivery is bad.

The purchaser of any registered Securities may always refuse to pay for a transfer deed of those Securities, unless the same is either accompanied by the share certificates or unless the transfer has been duly "certified" by the company (i.e. an acknowledgment by the company, usually stamped on the side of the transfer deed, that a certificate representing the shares transferred in the deed of transfer has been lodged at the offices of the company and is held by them).

Any bargains in Securities to bearer must be completed with the current coupon attached to the Bond, but if a coupon happens to be due on "settling day," then the Bond is delivered "Ex Coupon."

The question as to whether a transaction is "cum" or "ex" dividend is decided in all cases of *quoted* Securities by the quotation in the Stock Exchange Official List. In the case of *unquoted* Securities, the dealers fix the dates.

The usual practice is to begin to quote bargains in Securities payable to bearer *ex div.* on the actual day on which the dividend is payable, and in the case of transferable stocks and shares, "ex dividend" from the beginning of the account *following* that in which the dividend has been declared, providing the dividend is payable to the holders then registered.

In the case of a company closing its books for the payment of a dividend, then the quotation will be *ex dividend* from the beginning of the account *following* that in which the books are closed.

Calls.

If calls have been made upon shares which have been sold, the transferor remains legally liable to the company for the unpaid calls until the transfer is actually registered.

Cover System.

Outside brokers, who are not of course recognised by, or under the control of the Stock Exchange, often circularise the public, inviting them to deal on the "cover system," which in effect limits the liability of the customer to the amount of deposit or cover.

The client is advised to purchase (or sell) some particular stock, the dealer reserving the right to close the transaction directly the amount of "cover" runs off—that is, if a purchase is made and the stock falls in price to an amount equal to the cover, then the transaction is automatically closed; whilst if the stock rises, the client may use his discretion as to when the stock is to be sold.

Editorial.

Transfer of Shares.

The method of transferring shares depends in each case upon the form of a company's Articles of Association ; they may be transferred either by delivery, by endorsement, or by execution of a deed or other instrument in writing requiring registration at the offices of the company, and the registration may or may not require the assent of the directors.

If the company is governed by Table A, and has no Articles of Association of its own, then it is only necessary that the "instrument" of transfer should be executed by transferor and transferee, and does not make the sealing and delivery of a deed compulsory.

Loans and Shares.

When certificates of shares are deposited as Security for an advance of money, but a deed of transfer is *not* executed, an *equitable* charge only is created, so that in the event of the Securities lodged not being the property of the borrower, the lender would, of course, have no better title to the shares than the borrower possessed.

If, however, the deposit of certificates is accompanied by transfers executed by the borrower only, it would appear that such a *blank* transfer is a good Security only when deposited by the *actual owner* of the shares, or when accompanied by an authority from him enabling the borrower to deal with the shares.

Defaulters.

If a member of the Stock Exchange is unable to fulfil his engagements on settling day, he is publicly declared as a defaulter in the House, or, as it is termed, he is "hammered," and although it is quite open to him to file his petition in bankruptcy, or for his outside creditors to do so, this is very rarely done, as it is in the best interests of both debtor and creditors that the estate should be administered by the Official Assignee under Stock Exchange rules.

The Official Assignee is appointed annually by the Committee and it is his duty to obtain all original books of account from the debtor together with a statement of affairs, and to summon and attend all meetings of creditors ; he strictly examines every account and investigates any bargains which he may suspect as having been effected at unfair prices. Members are forbidden to carry on business for or to deal with a defaulter until he has been readmitted as a member of the House.

Special Settlements.

This term is used in connection with the issue of any new loan or shares in a new company, and fixes the day when bargains in such shares must be paid for, but no settlement can be arranged without the sanction of the Committee of the Stock Exchange.

It is usual to make application for the new shares to be officially quoted, at the same time as the special settlement is applied for.

Notes.

The Institute Examinations.

Prospective candidates for the Examinations of the Institute of Chartered Accountants will be interested in the recent decision of the Council making drastic alterations in the syllabus of their Intermediate and Final Examinations.

As will be seen from the new scheme detailed below, on and after November 1921 the subjects for the Intermediate Examination will embrace Bookkeeping, Accountancy, Auditing, and General Commercial Knowledge only, excluding entirely all legal subjects hitherto forming quite a considerable portion of the Examination.

The *compulsory* subjects in the Final Examination remain practically unaltered, but in addition candidates are required to select *one* of the three optional subjects.

It is interesting to note that one of these, viz. Economics, was also one of the additional subjects introduced by the Society of Incorporated Accountants and Auditors at their Final Examination in June last, and our forecast in the *Accountants' Journal* last August, that the Institute would probably follow suit, has been fully justified.

The new syllabus for Final candidates does not become effective until November 1922.

INTERMEDIATE EXAMINATION.

(a) General Commercial Knowledge, including the principles and uses of Bookkeeping.

(b) Bookkeeping and Accounts, with special reference to the Accounts of Limited Companies.

(c) Bookkeeping and Accounts, including the Accounts of Partners and Executors.

(d) Auditing.

FINAL EXAMINATION.

Compulsory Subjects.

(a) Bankruptcy and Company Law, including the Rights and Duties of Liquidators, Receivers, and Trustees in Bankruptcy and under Deeds of Arrangement.

(b) Partnership and Executorship Law and Accounts, including the Rights and Duties of Executors, Trustees and Receivers.

(c) Advanced Bookkeeping and Accountancy, including Costing and Taxation. (Two papers.)

(d) Auditing.

(e) The Principles of Mercantile Law, and the Law of Arbitrations and Awards.

Optional Subjects.

(Each candidate being required to select one.)

(f) Economics.

(g) Banking, Currency and Foreign Exchange.

(h) Elementary Actuarial Science.

Notes.

Corporation Profits Tax.

Corporation Profits Tax is a new and permanent tax charged on the profits of all companies and corporate bodies, the liability of whose members is limited by Act of Parliament.

It is *not* charged to individuals as is income-tax.

The profits of "British Companies," i.e. companies "incorporated by or under the laws of the United Kingdom" are assessable. For this purpose the company need not be "resident," i.e. controlled in the United Kingdom, which is a governing factor in the case of income-tax.

The profits of foreign companies, i.e. companies which are not British companies, are charged in so far as they arise in the United Kingdom. This corresponds with the income-tax liability, but in the case of "British companies" not "resident" in the United Kingdom, the income-tax is charged as for foreign companies, whilst Corporation Profits Tax is charged as for British companies.

SPECIAL TREATMENT.

Exempt from C.P.T.

Companies formed before the commencement of the Act whose assets consist wholly of stock or other securities issued by any public authority, and formerly held by the persons by whom the company was formed.

Exempt for Three Years until 31st December 1922.

- (a) Companies carrying on wholly in the United Kingdom gas, water, electricity, tramway, hydraulic power, dock, canal or railway undertakings, and are precluded by statute from charging any higher price or distributing any higher rate of dividend than authorised by that Act.
- (b) Building Societies.

Co-operative Societies.

- (a) Unregistered mutual trading concerns must include as profits the surplus arising from transactions with members.
- (b) Societies registered under the Industrial and Provident Societies Act, 1893, are to treat as trade expenses any sums paid by way of bonus, discount, or dividends on purchases whether to members or non-members.

Life Assurance Companies.

For the purposes of this tax any company carrying on life assurance business and any other business, shall be separately assessed for the life business and the other business, and a special method of assessment for the life business is provided, which is understood to mean that that portion of an insurance fund which belongs to the policyholders shall be freed from Corporation Profits Tax.

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Tax is charged at the rate of 5 per cent. on the profits, but the first £500 of profits is free of tax each year, and for accounting periods of less than a year a proportion of £500 is free of tax.

In the case of a British company an allowance is made in respect of fixed interest charges, so that the tax must not exceed 10 per cent. of the profits after deducting interest actually paid out of them at fixed rates on—

- (1) Debentures or Debenture Stocks.
- (2) Preference Shares (so far as the dividend paid is at a fixed rate).
- (3) Permanent loans issued before the commencement of the Act, or in the case of (1) and (3) any later issues in replacement of these.

The profits assessable are calculated on the same principles as for Schedule D Income Tax, but for the actual accounting period of assessment, which need not be an income-tax year, and not on the average of any years.

The profits so estimated are not necessarily liable to income-tax.

The profits assessable to Corporation Profits Tax include

- (1) Profits from lands, tenements, or hereditaments, forming part of the assets of a company, and include any such premises used for the purposes of the company.
- (2) Interest dividends or income from investments or from any other source except those received directly or indirectly from a company liable to assessment to Corporation Profits Tax thereon.
- (3) Profits attributable to the accounting period arising from partially completed contracts.

The following deductions are allowed :—

- (1) Interest on money borrowed for the purposes of the company, rents, royalties, and other payments, except dividends or distributed profits, from which income-tax is collected at source, except any such interest, &c., payable to a director or other person concerned in the management, who has directly or indirectly, solely or jointly with others, a controlling interest.
- (2) Share of profits distributed to employees under a profit-sharing scheme.
- (3) Wear and tear or renewals, obsolescence, or capital expenditure for the development of the business as allowed for income-tax or Excess Profits Duty, whichever is the greater.
- (4) Excess Profits Duty or Mineral Rights Duty payable in the United Kingdom or abroad for the period, any repayment of Excess Profits Duty for a previous year to be excluded from the assessable profits.
- (5) Remuneration to a director or other person controlling the company up to £1,000 per annum.

The following are not allowable as deductions :—

- (1) Interest on permanent loans.
- (2) Artificial transactions which reduce the amount of the profits.
- (3) Corporation Profits Tax.
- (4) Income-tax.

Unemployment Insurance.

The Unemployed Insurance Act, 1920, comes into operation on the 8th November of this year, and under it substantially all persons for whom National Health Insurance contributions have now to be paid, except outworkers and persons employed in agriculture and private

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domestic service, will have to be insured. The employees of local authorities and persons with rights under a statutory superannuation scheme are excepted under certain conditions, but generally the exceptions include only persons who are excepted from the Health Insurance Acts. Workpeople over seventy years of age will be insurable, except in the case of old-age pensioners.

The Act is an extension of the scheme introduced by Part II of the National Insurance Act, 1911, and all contributions paid under the old scheme count as an equal number of contributions under the new Act.

The contributions are as follows :—

WEEKLY RATES.	Employee's Contrib'n.	Employer's Contrib'n.	Total value of stamp.
Men of 18 and over ...	4d.	4d.	8d.
Women „ „ ...	3d.	3½d.	6½d.
Boys of 16 and under 18 ...	2d.	2d.	4d.
Girls „ „ „ ...	1½d.	2d.	3½d.

For every contribution paid in respect of men and women the State contributes 2d. and 1d. respectively, and in the case of boys and girls 1d. and 1d. respectively. The contributions will be collected by means of special unemployment stamps as at present, but the unemployment books will be obtained, not through the Post Office as in the case of Health Insurance, but through the Employment Exchanges.

The benefits provided are as follows :—Men 15s., women 12s., boys 7s. 6d., and girls 6s. per week each. No benefit is payable for the first three days of unemployment; thereafter, it is payable for a maximum of fifteen weeks in any insurance year, subject to only one week of benefit being drawn for every six contributions standing to the credit of the insured contributor. Contributors who have made 500 contributions (or a smaller number, if over the age of fifty-five on entry into insurance), will be entitled, on reaching sixty years of age, to a refund of their own contributions, less any benefit paid, together with interest.

The benefit may be obtained either directly from the Unemployment Fund through an Employment Exchange or Branch Employment Office, or through the association or society of which the contributor may be a member.

It is impossible in a short note to give more than a very brief summary of the provisions of the Act, but sufficient has been said to give readers a general idea of the scope of the new scheme.

Prize Essay Competition.

There were only two entries for Competition No 2, and therefore no prize is awarded. In Competition No. 3 the prize in the Final Division goes to "Teaichanko," Mr. R. C. F. Besch, c/o Messrs. Thomson, Hill & Co., 19A Coleman Street, London, E.C., for his essay on "Advice to an Intermediate Student." There were not sufficient entries in the Intermediate Division.

The subjects for November are :—

Intermediate.—The Best System of Internal Check for Prevention of Fraud in Accounts.

Final.—The best Imaginary Report as to the Investigation of a Business with a view to Purchase.

Income Tax Notes and Comments.

In this column Income-tax recent alterations of law and practice are discussed and explained and readers' queries are answered. Arrangements have been made to reply to these queries by post, the replies being published subsequently in the "Journal" under noms de plume. A stamped addressed envelope should be enclosed with the queries and the service is limited to subscribers to the "Journal."

New Business.

A correspondent "Manchester," suggests the following method of dealing with a new business:—

Profits given	Year to December 31	1920	..	£ 3,000
"	"	1921	..	2,000
"	"	1922	..	1,200
"	"	1923	..	700
Repayment given = £2,300.				

Alternative suggested under Rule 8, Cases I and II, Schedule D. Assessment on actual amount of Profits arising in each year. Repayment on

1919-20	..	$\frac{1}{4} \times 3,000$	=	£ 750	£	=	£ nil
1920-21	..	$\frac{3}{4} \times 3,000$	=	2,250			
		$\frac{1}{4} \times 2,000$	=	500			
					2,750	=	250
1921-22	..	$\frac{3}{4} \times 2,000$	=	1,500			
		$\frac{1}{4} \times 1,200$	=	300			
					1,800	=	1,200
1922-23	..	$\frac{3}{4} \times 1,200$	=	900			
		$\frac{1}{4} \times 700$	=	175			
					1,075	=	1,425
Total Repayment				=	£2,875		

1923-24 as given, unless adjustment under Section 43 can be claimed, in which case he would be assessed as under:—

Year to December	1921	..	£ 2,000
"	1922	..	1,200
"	1923	..	700
			3)3,900
			£1,300

and Repayment made on £766.

The accounts can be split when that course is more favourable to the taxpayer, but, on a strict construction of the law, splitting is not permissible. As, however, the Revenue attempts to split accounts when the Revenue is benefited thereby, the splitting cannot be refused when requested by the taxpayer.

Breweries.

A correspondent "Bacchus" asks if the *full* annual value of brewery premises occupied by the owner for business purposes is deductible for Schedule D and Excess Profits Duty.

For income-tax only the *net* Schedule A is allowable except for houses let to tenants, when the gross is allowable under *Usher's Wiltshire*

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Brewery v. Bruce. For Excess Profits Duty no allowance for Schedule A is permissible, except for tied houses, when the *gross* is allowable under *Weller v. Inland Revenue*.

Deficiencies.

A trader converted his business into a limited company which was registered on 16th August 1919, but the business was taken over from 31st March 1919. The correspondent "Nicholas" states that the deficiencies of the trader are refused to the company.

Gittus v. Inland Revenue decided in the Court of Appeal that a deficiency was personal, and could not pass to a successor, and that, in order to carry forward a deficiency, there must be practical identity of proprietorship. Now, if the previous owner is practically the sole shareholder, the deficiencies should be allowed, as there is the *real* identity of proprietorship. It is suggested that the claim be advanced on this basis.

Bonus Shares.

It is asked by a correspondent as follows:—A company is being reorganised (to give effect to a co-partnership scheme), and proposes to distribute the balance of profit at the date of reorganisation amongst its employees in bonus shares (without the option of cash). Tax has, of course, been paid on the profit in question, and the said bonus shares were naturally not deducted in arriving at the Schedule D assessment. Can the recipient of the shares re-claim for tax paid by the company, and are the shares returnable by the recipient for income-tax purposes? How should the issue be dealt with by the company from an income-tax point of view? The company proposes to remunerate its chief employees by means of a fixed salary in cash, and the issue of bonus shares (without any cash option) dependent entirely on the result of each year's trading. Are the bonus shares returnable for income-tax purposes by the recipients.

The shares will be income of the employee on the basis of the real value of the shares. They will be deductible by the company just as if they were wages or commission. The position is the same as if the payment had been constructively in cash, and the employees had immediately taken up shares with the cash. The shares can be converted into cash. The case of *Inland Revenue v. Blott* is not relevant, as it dealt with the case of a shareholder, and it was held that the bonus shares were not income, as the company had not paid a dividend but merely altered the form of its assets, so that the shareholder had only had his holding altered in form without altering its total value. The position is quite different with an employee who is financially better off by the value of the shares, and the original shareholders are worse off to the extent of the bonus shares.

Double Assessment.

For the year 1919-20 a return for assessment under Schedule D was made, which included bank interest and National War Bond interest. It has now been discovered that the figure included for the War Bond interest was the net amount received for the previous year after deduction of tax at the source, and income-tax has accordingly been paid on the amount twice over. It is asked by "Lexicon" if repayment can be claimed.

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There has been a technical "double assessment," and a claim should be made to the local Inspector of Taxes for repayment on the basis of that "double assessment." The receipt for the tax paid, and the vouchers showing the deduction of tax, should be sent with the claim.

Building Societies.

In a case mentioned by a correspondent, a building society pays income-tax under Arrangement B, and it is asked if interest on War Bonds and Exchequer Bonds is correctly included in the charge.

The deducted *tax* should be allowed against the Arrangement B *tax*, as the latter covers the full liability, and the Exchequer Bonds interest is part of the income used to pay the share interest, &c., and is therefore part of that assessed under Arrangement B.

Free of Tax Fees.

A company decides to pay the tax on directors' fees, and the cash payment to the director for the year 1920-21 is £183 6s. 8d. The Inspector works out the liability of tax on same as follows:—

	£291 0 0 at 6s	= £87 6 0	duly payable
10% deduction	29 2 0		
	261 18 0		
Tax on £261 18 0 at 6s	= 78 11 4		
	£183 6 8		net amount payable

The correspondent's computation is as follows:—

Cash paid to director	£183 6 8
Add Tax at 6s	78 11 4
making it a gross sum =	261 18 0
Less 10% on earned income	26 3 10
	£235 14 2

Tax payable is 6s. on

$$£235\ 14\ 2 = £70\ 14\ 6$$

The director is in the position of having £183 6s. 8d. left after *he* has paid the tax. Now, the net figure is gross—10 per cent of gross—tax at 6s. on 90 per cent. of gross, i.e. 90 per cent of gross—30 per cent. of 90 per cent. of gross = $183\frac{2}{3}$ = 90 per cent. of gross—27 per cent of gross = 63 per cent., so that gross = £291.

Interest on Estate Duty.

It is asked by "Duty" if interest on Estate Duty is chargeable against the income of a trust estate.

The disallowance follows the general and settled practice, and opposition would be ineffective.

Pensions.

In a case referred to by "J. T." a pension is given to an old employee on retirement, and it is asked how it should be dealt with.

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No deduction of tax should be made, and the recipient will be charged direct. The pension will be charged by the firm as wages.

Schedule A.

A correspondent " Ignoramus " raises the following questions :—

(1) The occupier of a house paying 5s. 6d. per week rent subsequently purchases. The Schedule " A " assessment duly arrives, setting forth the amount of tax payable as follows :—6s. in £1 on £8 6s. for 1st instalment=£1 4s. 11d. The owner's income is such that he almost escapes paying income-tax. Should not the rate of tax in this case be at 3s. in £1?

(2) When approached on this beforementioned point, the Inspector of Taxes invariably raises the assessment value to equal the amount of the annual gross rental, less $\frac{1}{6}$ for repairs. Can he rightly do this, and then assess on the advanced amount at 3s. in £1? I understand that only the Overseers could increase assessments.

(3) I understand that a landlord is assessed on the net income derived from property, i.e. the gross rent, less ground rent, rates and allowance for repairs. Does this apply to the occupier, who is owner also? It is obviously unfair to allow a landlord the deductions mentioned above, and to charge the occupier-owner on gross rental less allowance for repairs only.

(1) The tax should be at 3s. in the £ unless mortgage interest is payable, which should be kept in charge at 6s. Interest paid to a Building Society is deductible from the assessment.

(2) There is no power to increase the assessment unless there are structural alterations. (*Turner v. Carlton.*)

(3) The assessment is the same on an owner who occupies. The ground rent is not deducted, as the owner deducts tax when paying the ground rent. The only basis of Schedule A is " annual value," i.e. the rental value when the tenant bears rates, so that rates have to be deducted from the gross rental value, which includes rates.

Schedule E.

A secretary of a company asks what basis he should follow in making the return of salaries under Schedule E.

It is impossible to give the salaries of the year of assessment, and the practice is to give either the salaries current when the return is made, or those of the preceding year.

Legal Notes.

By Albert Crew, Barrister-at-Law.

An up-to-date knowledge of recent decisions in the Courts is of the greatest value to accountants and business men and to students reading for their examinations. In this column are noted the salient features of the leading cases decided during the preceding month.

Companies.

Alteration of Memorandum. Extension of Objects.

The Court *confirmed* alterations of a memorandum of association of a shipping company in which the objects clause—

(1) As to form, went beyond a strict statement and definition of the objects, and included a variety of powers designed to secure the objects.

(2) Contained provisions enabling the company, which was formerly for carriage by land and sea, *inter alia*

(a) To carry by air, and to perform functions and exercise powers subsidiary thereto.

(b) To acquire and take over the business, &c., of any other company carrying on business of a similar nature.

(c) To lend money to customers.

(d) To obtain provisional orders, or Acts of Parliament.

(e) To dispose of generally, including to sell any part of the property and rights of the company.

(f) To promote freedom of contract, and to resist, insure against, counteract and discourage interference therewith, and to subscribe to any association or fund for any such purposes.

The Court *refused* to confirm an interpretation clause to the effect that each paragraph in the objects clause should not be limited or restricted by inference drawn from the terms of any other paragraph, or from the name of the company. *North of Scotland and Orkney and Shetland Steam Navigation Co.* (1920, 57 Sc.L.R. 689).

Contract.

Agreement between the Parties subject to subsequent Formal Contract.

Where an offer and acceptance are made (a) subject to a subsequent formal contract, if such contract is a condition or term which, until performed, keeps the agreement in suspense, the offer and acceptance have no contractual force. On the other hand, if all the terms are agreed in and (b) a formal contract is only contemplated as putting the terms in legal shape, the agreement is effectual before and irrespective of such formal contract. *Thompson v. The King* (1920, 2 I.R., K.B.D. 365).

Gaming.

Partnership for Betting.

No partnership for the purpose of betting is possible under English law, and therefore an action will not lie by such a partnership to recover back money paid by the partnership in respect of bets. *O'Connor & Ould v. Ralston* (1920, 36 T.L.R. 768).

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Innkeepers.

Obligation to Lodge Travellers.

An innkeeper, while under an obligation to receive travellers, has a discretion as to rejecting guests that are not suitable to the character of his establishment, subject to the proviso that he must not exercise his discretion capriciously or maliciously. It was held that a railway station hotel belonging to a railway company, which issued a general invitation to the travelling public to resort thereto, was subject to the obligations imposed by the law on common inns, including the obligation to provide accommodation for travellers resorting thereto, but that the owners of such an hotel were justified in refusing accommodation to a Jewish money-lender who had been pilloried in the public press without taking action to vindicate his character, who by his conduct in the hotel had attracted attention; whose presence in the hotel, at the time largely frequented by young officers, some of whom he entertained there, had been the occasion of complaint at the instance of guests in the hotel. *Rothfeld v. North British Railway Company* (1920, 57 Sc.L.R. 661).

Insurance.

Non-disclosure of Material Fact.

On 25th September plaintiffs effected with the defendants a policy of re-insurance upon cargo "lost or not lost," which the plaintiffs had themselves previously insured. On the night of 24th September it was known at Lloyd's that part of this cargo had been destroyed, which fact was posted on the casualty board at Lloyd's in the morning of 25th September, and a casualty slip was sent by Lloyd's to their subscribers, including the plaintiffs. At 10 a.m. on 25th September, the plaintiffs instructed their brokers to effect the re-insurance policy at Lloyd's, which they did the same day at 4 p.m. The plaintiffs, although they had the casualty slip, did not read it, and did not, in fact, know of the casualty. The defendants when they wrote the risk were equally ignorant of it. The defendants relied on Sections 18 and 19 of the Marine Insurance Act, 1906, and contended that there had been concealment by the plaintiffs of a material fact, but the plaintiffs contended that they were not bound to disclose any circumstances known, or presumed to be known to underwriters, which in the course of their business they ought to know. It was held that the plaintiffs ought, in the ordinary course of business, to have known of the casualty in time to recall their instructions to their brokers to effect the re-insurance. They had no right to neglect the casualty slips in a case where they were already on a risk on the ship. The defendants, if they had looked at the slips, could not be expected to have always present to their minds information about a vessel which, at the time they got the information, would have no interest for them at all. Judgment was given for the defendants, which was affirmed on appeal. *London General Insurance Co. v. General Marine Underwriters' Association* (1920, 42 W.N. 322).

Wills and Executors.

Bodily Infirmary of Executor.

When an executor's bodily health is such that he is unable to perform the duties of his office the Court has jurisdiction to impound the grant made to him, and to make a grant of administration to another person, limited during the executor's incapacity. *In the Goods of Knott* (1920, 2 I.R., K.B.D. 397).

Gift to be selected by three named Persons, and Death of one Selector without any Selection having been made.

A testator directed that the trustees of his will should, out of specified moneys, pay 10 per cent. to such religious, charitable, and philanthropic objects as three named persons should jointly appoint. These three persons all survived the testator, but one of them died without any appointment hav-

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ing been made. It was held that the death of one of the appointors without any appointment having been made, would not prevent a selection of charitable objects being made; but that the *and* must be read as *or*, and that as one or more of the selected objects might be merely philanthropic, and not necessarily charitable, no general charitable intention was shown, and the gift in favour of charity therefore failed. *In re Eades* (1920, 2 Ch. 353).

Gift to Charity to be selected by W., who died before Testatrix.

A testatrix, after appointing an executor and trustee, gave her personal estate in England, subject to payment of her testamentary expenses and debts and a legacy, to her sister for life. She then directed that on the death of her sister, certain legacies should be raised and paid, and subject thereto gave the rest and residue of her personal estate in England to such charitable institution or society in England, Russia, or elsewhere, "as may be selected by my friend W., within three calendar months from the time of the decease of my sister." Both the sister and W. predeceased the testatrix. It was held that the testatrix had not, by her residuary gift, shown a paramount general charitable intention, that the discretion conferred on W. and its exercise were of the essence of the gift, and accordingly, that the gift of residue failed, and the residue went as in intestacy. *In re Willis* (1920, 2 Ch. 358).

Absolute Gift and Qualifying Trusts.

The principle laid down in *Lassence v. Tierney* (1 Mac. and G. 551) and *Hancock v. Watson* (1902, 71 L.J. Ch. 179)—namely, that where property is segregated from the estate of the testator by being given absolutely, and then the absolute gift is modified by a settlement, to the extent to which the settlement is not exhaustive the original absolute gift prevails—is applicable to real estate as well as to personalty. *Moryoseph v. Moryoseph* (1920, 89 L.T. Ch. 376).

A Bequest in favour of Charitable Institutions is not void for uncertainty.

A residuary bequest made in favour of such charitable and benevolent institutions in Glasgow and Paisley as the trustees in their discretion may seem best is not void for uncertainty. *Caldwell's Trustees v. Caldwell* (1920, 57 Sc.L.T. 593).

Authenticity of Deletions of a Will.

A testamentary writing, holograph of a deceased blacksmith, was found in a locked repository where he kept his private papers, enclosed in an envelope marked with his own name, and with the word "private." The deed contained certain provisions which had been deleted by a pen being drawn through them, but the deletions were not initialled or otherwise authenticated. The beneficiaries in whose favour the provisions so deleted were conceived had all, with one exception, predeceased the testator. It was held that the deletions must be presumed to have been made by the testator with the intention of altering the deed, and that the provisions so deleted were validly cancelled. *Allan's Executrix v. Cockburn* (1920, 57 Sc.L.T.R. 614).

Work and Labour.

Minimum Wages, Man Employed in Garden.

A person who employs a man in a fruit and vegetable garden which is not cultivated wholly or mainly for the purpose of market gardening as a trade or business, is not bound to pay the minimum wage fixed under the Corn Production Act, 1917. *Bickerdike v. Fairfax-Lucy* (1920, 36 T.L.R. 210).

Whether Minimum Wages are Payable Weekly.

The Corn Production Act, 1917, Section 4 (1) does not make it compulsory on the employer of a workman in agriculture who is engaged by the year to pay the wages fixed under the Act weekly, but only provides for the rate at which wages are to be paid. *Hampton v. Smith* (1920, 36 T.L.R. 209).

Monthly Calendar.

November 1st, Monday.—WEST OF ENGLAND DISTRICT SOCIETY OF INCORPORATED ACCOUNTANTS.—Lecture, "The Determination of Wages," by Mr. Hubert Phillips, B.A., 5.30 p.m., at The Royal Hotel, College Green, Bristol.

November 2nd, Tuesday.—LONDON INCORPORATED ACCOUNTANTS STUDENTS' SOCIETY.—Lecture, "Executorship Law," by Mr. C. A. Sales, LL.B., 6.30 p.m., at 50 Gresham Street, London, E.C.

November 3rd, Wednesday.—LONDON CHARTERED ACCOUNTANT STUDENTS' SOCIETY.—Joint Debate with Chartered Secretaries Students' Society, on Sections 44, 46, and 52 of the Finance Act, 1920, 6 p.m., at the Institute of Chartered Accountants.

November 4th, Thursday.—LIVERPOOL CHARTERED ACCOUNTANT STUDENTS' ASSOCIATION.—Lecture, "International Law," by Dr. D. F. de l'Hoste Ranking, M.A., LL.D., 5.30 p.m., at 13 Union Court, Liverpool.

November 5th, Friday.—BIRMINGHAM CHARTERED ACCOUNTANT STUDENTS' SOCIETY.—Lecture, "Bills of Exchange," by Mr. F. S. Saville, LL.B., 6.30 p.m., at 8 Newhall Street, Birmingham.

SCHOOL OF ACCOUNTANCY STUDENTS' ASSOCIATION (LEEDS BRANCH).—Lecture, "Commercial Law," by Mr. L. Godlove, 7.30 p.m., at 10 Park Street, Leeds.

November 8th, Monday.—CORPORATION OF INSURANCE BROKERS METROPOLITAN AND HOME COUNTIES DISTRICT COMMITTEE.—Lecture, "The Essential Features of Profit Insurance," by Mr. John Gentle, 8 p.m., at The Connaught Rooms, Great Queen Street, W.C. 1.

SCHOOL OF ACCOUNTANCY STUDENTS' ASSOCIATION (LONDON BRANCH).—Lecture, "Hints on the Study of Executorship Accounts," by Mr. W. H. Grainger, 7 p.m., at Essex Hall, Essex Street, Strand, London, W.C.

November 10th, Wednesday.—LONDON CHARTERED ACCOUNTANT STUDENTS' SOCIETY.—Lecture, "Accounts of Hospitals and Other Charities," by Sir Basil Mayhew, K.B.E., F.C.A., 6 p.m., at the Institute of Chartered Accountants.

NOTTINGHAM CHARTERED ACCOUNTANT STUDENTS' SOCIETY.—Lecture, "Examination Hints on Executorship Law and Accounts," by Mr. W. H. Grainger, A.S.A.A.

SHEFFIELD CHARTERED ACCOUNTANTS STUDENTS' SOCIETY.—Discussion on the Institute Examination Papers.

November 11th, Thursday.—LEEDS AND DISTRICT CHARTERED ACCOUNTANTS STUDENTS' ASSOCIATION.—Joint Debate with Liverpool Chartered Accountant Students' Association, at Leeds.

November 12th, Friday.—BIRMINGHAM CHARTERED ACCOUNTANT STUDENTS' SOCIETY.—Joint Debate with Law Students' Society, 6.30 p.m., at 8 Newhall Street, Birmingham.

SOUTH WALES AND MONMOUTHSHIRE CHARTERED ACCOUNTANT STUDENTS' SOCIETY.—Discussion on the Institute's May Examination Papers, 7.30 p.m., at 5 High Street, Cardiff.

November 15th, Monday.—WEST OF ENGLAND DISTRICT SOCIETY OF INCORPORATED ACCOUNTANTS.—Lecture, "Currency and Prices," by Mr. Hubert Phillips, B.A., 5.30 p.m., at Royal Hotel, College Green, Bristol.

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November 17th, Wednesday.—LONDON CHARTERED ACCOUNTANT STUDENTS' SOCIETY.—Essay awarded First Prize in connection with Course of Lectures on Costing to be read by Mr. W. C. Green, 6 p.m., at the Institute of Chartered Accountants.

November 18th, Thursday.—LIVERPOOL CHARTERED ACCOUNTANT STUDENTS' ASSOCIATION.—Discussion on Prize Essay and Presentation, 5.30 p.m., at 13 Union Court, Liverpool.

November 19th, Friday.—BIRMINGHAM CHARTERED ACCOUNTANT STUDENTS' SOCIETY.—Lecture, "Preparation for the Institute Examinations," by Mr. B. G. Vickery, A.C.A., 6.30 p.m., at 8 Newhall Street, Birmingham.

SCHOOL OF ACCOUNTANCY STUDENTS' ASSOCIATION (LEEDS BRANCH).—Lecture, "Partnership Law and Accounts," by Mr. G. T. Roxburgh, A.L.A.A., 7.30 p.m., at 10 Park Street, Leeds.

November 22nd, Monday.—MANCHESTER CHARTERED ACCOUNTANTS STUDENTS' SOCIETY.—Lecture, "Army Cost Accounts," by Major C. H. Charlton, C.M.A., 6 p.m., at 60 Spring Gardens, Manchester.

WEST OF ENGLAND DISTRICT SOCIETY OF INCORPORATED ACCOUNTANTS.—Lecture, "The Formation and Installation of Costing Systems," by Mr. S. T. Morns, A.S.A.A., 5.30 p.m., at Royal Hotel, College Green, Bristol.

November 24th, Wednesday.—NOTTINGHAM CHARTERED ACCOUNTANT STUDENTS' SOCIETY.—"Meeting of Creditors." Chairman, Mr. H. F. Holloway, F.C.A.

SHEFFIELD CHARTERED ACCOUNTANTS STUDENTS' SOCIETY.—Lecture, "Receivership," by Mr. R. M. F. Gill, A.C.A.

NORTH WEST LANCASHIRE DISTRICT SOCIETY OF INCORPORATED ACCOUNTANTS.—Lecture, "Scientific Costing," by Mr. E. Miles Taylor, F.C.A.

November 25th, Thursday.—LIVERPOOL CHARTERED ACCOUNTANT STUDENTS' ASSOCIATION.—Lecture, "The Audit of Shipping Accounts," by Mr. J. Harvey, A.C.A., 5.30 p.m., at 13 Union Court, Liverpool.

November 26th, Friday.—BIRMINGHAM CHARTERED ACCOUNTANT STUDENTS' SOCIETY.—Lecture, "The Trustee in his Relation to the Property of the Bankrupt," by Dr. D. F. de l'Hoste Ranking, LL.D., 6.30 p.m., at 8 Newhall Street, Birmingham.

SOUTH WALES AND MONMOUTHSHIRE CHARTERED ACCOUNTANT STUDENTS' SOCIETY.—Short Papers by Messrs C. Munn, A.C.A., R. G. White, A.C.A., and E. L. Pope, A.C.A., 7.30 p.m., at 5 High Street, Cardiff.

SCHOOL OF ACCOUNTANCY STUDENTS' ASSOCIATION (LEEDS BRANCH).—Lecture, "Negotiable Instruments," by Mr. J. Wurzal, LL.B., 7.30 p.m., at 10 Park Street, Leeds.

November 29th, Monday.—WEST OF ENGLAND DISTRICT SOCIETY OF INCORPORATED ACCOUNTANTS.—Lecture, "Principles of Taxation," by Mr. Hubert Phillips, B.A., 5.30 p.m., at the Royal Hotel, College Green, Bristol.

Students' Society Notes.

The Chartered Accountant Students Society of London.

Sir J. S. Harmood-Banner, M.P., F.C.A., has kindly promised to act as Mr. Speaker at the Parliamentary Debate with the Chartered Secretaries Students' Society at the Institute of Chartered Accountants, on Wednesday, the 3rd inst. The subject for debate is the Finance Act, 1920, Sections Nos. 44, 6, and 52, relating to Excess Profits Duty, Beer Duty, and Corporation Tax respectively.

The duties of Parliamentary Ministers will be undertaken as follows:—

Chancellor of the Exchequer.—Mr. B. O'D. Manning, A.C.A. (C.A.S.S.).

Parliamentary Secretary to the Treasury.—Mr. W. E. Hollidge (Secs.)

Minister without Portfolio.—Mr. N. D. Ashley, B.A. (C.A.S.S.).

Leader of Opposition.—Mr. F. W. Harris (Secs.).

Chairman of Labour Party.—Mr. C. S. Bamber (Secs.).

Full particulars of the proceedings can be obtained from the Secretary.

Particulars of the lectures by Sir Basil E. Mayhew, K.B.E., F.C.A., and Mr. W. C. Green, will be found in the Monthly Calendar on page 419.

Chartered Accountants Students' Society of Kingston-upon-Hull.

The twenty-first annual general meeting of the above Society was held at the Hall of the Incorporated Law Society, Bowlalley Lane, on Tuesday, 22nd September, Mr. J. B. Batchelor, A.C.A., in the chair.

The Report and Accounts for the year ended 30th April 1920 were read, approved, and adopted.

The following officers were elected for the ensuing year:—

President.—Mr. W. F. Harris, F.C.A.

Vice-Presidents.—Messrs. W. Smailes, F.C.A., A. W. Retchford, A.C.A., T. Goldie, A.C.A., J. J. Campbell, A.C.A., T. Fawley Judge, A.C.A., and W. G. Vickerman, A.C.A.

Hon. Treasurer.—Mr. J. B. Batchelor, A.C.A.

Assistant Hon. Treasurer.—Mr. F. S. Mowforth.

Hon. Secretary.—Mr. G. B. Robins, A.C.A.

Assistant Hon. Secretary.—Mr. E. C. Mallett.

Hon. Librarian.—Mr. H. E. Gettingell.

Assistant Hon. Librarian.—Mr. R. L. Davy.

Hon. Auditors.—Messrs. E. W. Shaw, A.C.A., and D. B. Hargreave, A.C.A.

Committee.—Messrs. C. M. Strachan, A.C.A., H. T. Flowers, G. H. Lambert, A.C.A., H. O. Locking, A.C.A., G. Akester, Q. R. W. Agerskow, and T. W. Revell, A.C.A.

The syllabus for the Autumn Session was discussed, and arrangements made in accordance with the wishes expressed by members in their replies to the questions circulated by the Committee.

The Nottingham Chartered Accountants Students' Society.

The first lecture of the above-named Society was held on Wednesday, 13th October, at the Victoria Station Hotel, Nottingham, and was very well attended, forty students being present.

On the kind invitation of the Chairman, Mr. W. Gath, F.C.A., who is President of the Students' Society for the current year, the students were entertained to tea prior to the lecture.

The lecture was given by Dr. D. F. de l'Hoste Ranking, M.A., LL.D., and was entitled "The Position of a Trustee in regard to the Property of a Bankrupt." A most interesting lecture was heard, Dr. Ranking quoting all the recent cases which affected the subject, and quite a number of questions were put to the lecturer at the close of his lecture.

A hearty vote of thanks was given to Dr. Ranking for his lecture, proposed by the Chairman. The proceedings terminated by a vote of thanks to the Chairman, proposed by Mr. Sergeant, and seconded by Dr. Ranking.

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The second lecture took place on Wednesday, 20th October, at the Victoria Station Hotel, Nottingham. The lecture was very well attended, some fifty students being present, who were, prior to the lecture, entertained to tea by Mr. W. J. West, A.C.A., who unfortunately, owing to indisposition, was unable to take the chair, his place being taken by Mr. A. L. Morell, A.C.A., at very short notice. The subject of the lecture was the Finance Act, 1920, and a most interesting lecture was given by Mr. E. H. Palmer, A.C.A. The lecture produced many questions from the students, which were answered by Mr. Palmer during the course of the lecture. Mr. Palmer had intended to lecture on Income-tax, Excess Profits Duty, and Corporation Tax, but was unable to touch on the two latter subjects. It was put before the meeting that Mr. Palmer be asked to continue his lecture on Wednesday, 27 October, and the local debate arranged for that date be postponed indefinitely. This was carried unanimously, and Mr. Palmer kindly consented to continue his lecture on that date. The meeting concluded with the usual vote of thanks.

The following lectures have been arranged:—1920—Nov. 10th (Wednesday), lecture, "Examination Hints on Executorship Law and Accounts," Lecturer, Mr. W. H. Grainger, A.S.A.A.; Chairman, Mr. R. B. Baggaley, F.C.A. Nov. 24th (Wednesday), Nottingham Chartered Accountants Students' Society "Meeting of Creditors," Chairman, Mr. H. F. Holloway, F.C.A. Dec. 7th (Tuesday), Nottingham Chartered Accountants Students' Debate, Chairman, Mr. E. H. Palmer, A.C.A. Dec. 16th (Thursday), lecture, "National and Industrial Finance Contrasted," Lecturer, Mr. A. F. Dodd, F.C.A.; Chairman, Mr. T. G. Mellors, J.P., F.C.A. 1921—Jan 12th (Wednesday), lecture, "Sale of Goods," Lecturer, Mr. E. Huntsman (Solicitor); Chairman, Mr. Robert Rhodes (President Nottingham Chartered Accountants' Society). Jan. 27th (Thursday), Joint Debate with the Sheffield Chartered Accountants Students' Society, Chairman, Mr. A. R. Leivers, F.C.A.

Sheffield Chartered Accountant Students' Society.

The complete syllabus is not yet ready, but the following lectures have been arranged:—

Oct. 13.—Ten Minute Papers by Students.

Oct. 20.—Mr. H. Wells Smith, F.C.A., on "The Consolidation and Alteration of Share Capital."

Oct. 27.—Mr. A. L. Boddington, F.C.A., on "The Accountant and Finance."

Nov. 3.—Mr. S. Blythen, O.B.E., F.C.A. (subject to be announced later).

Nov. 10.—Discussion on Institute Papers.

Nov. 24.—Mr. R. M. F. Gill, A.C.A., on "Receivership."

Dec. 15.—Informal Debate.

The Examination Preparation Classes have again commenced. The Senior Classes are held each Saturday at 9.30 a.m. and are again conducted by Mr. F. C. Young, F.C.A., on Accountancy and Auditing, and by Mr. Raymond Meeke, LL.B., on Legal Subjects. The Junior Classes are held each Friday at 6.30 p.m., under the direction of Mr. B. E. Brown, A.C.A.

We notice in the current issue of *The Accountant* several alterations in the syllabus for the Institute Examinations. The "scrapping" of "Rights and Duties" in the Intermediate has caused many students to sing songs of praise, but the additional subjects in the Final more than counter-balance this jubilation.

We trust that Messrs. Gee & Co. will endeavour to publish articles on these new and terrifying subjects which now we see as in a glass darkly, but *then* (November 1922) face to face.

Students' Society Notes.

We have a few candidates for the November Examinations whom we wish the best of luck, and we hope again to see at least one Sheffielder in the Honours List.

Enough is as good as a feast even of Accountancy. Who says football? We should be pleased to welcome any other Students' Society to a game of "soccer" during the season; if agreeable, the losers to stand the winners a show in the evening. Anyone wishing to accept, please communicate with the Hon. Secretary, c/o Messrs. Knox, Burbidge & Co., 45 Bank Street, Sheffield.

The South Wales and Monmouthshire Chartered Accountant Students' Society.

The following lectures have been arranged:—1920—Oct. 28th (Thursday), lecture, "The Teaching of Accountancy by Diagrammatic Representation," by Mr. James Stephenson, M.A., B.Com., B.Sc. Nov. 12th (Friday) Discussion on the Institute's May Examination Papers. Openers: Final, Mr. C. E. McLay, A.C.A. Intermediate: Mr. F. R. Lowther. Nov. 26th (Friday), Short Papers, by Messrs. C. Munn, A.C.A., R. G. White, A.C.A., and E. L. Pope, A.C.A. (subjects to be announced later). Dec. 17th (Friday), Ten Minutes' Papers. 1921—Jan. 5th (Wednesday), lecture, "A Few Notes on Brewery Accounts," by Mr. A. H. Williams, A.C.A. Jan. 26th (Wednesday), lecture, "Negotiable Instruments," by Mr. Barnett Janner, B.A., Solicitor. Feb. 18th (Friday), Mock Public Examination of a Bankrupt. Mar. 11th (Friday), lecture "An Elementary Lecture on the value of Economics to the Accountant," by Mr. Percival E. Robathan, C.A. April 1st (Friday), Debate, "Does Costing Pay?" (Further particulars will be given later.)

Unless otherwise announced, all meetings will take place at the Society's Room (which is situated on the top floor of No. 5 High Street, Cardiff), at 7.30 p.m.

Ten Minutes Papers, subject, "The Principles of Costing as applied to any trade or profession with which you are familiar." The Competition will be divided into a Senior and Junior Section, and a prize will be awarded in each section. The Junior Section includes articled clerks who have not passed their Intermediate Examination; the Senior Section includes those who have passed or been excused their Intermediate Examinations, but qualified members may not compete. The papers must be sent to the Hon. Secretary not later than Saturday, 27th November 1920, in sealed envelopes marked, "Ten Minutes Paper," in the top left-hand corner. Further particulars can be obtained from the Hon. Secretary. The Committee trust that the members will give their hearty support to the meetings by their regular and punctual attendance and by taking part in the discussions which will follow the lectures. It is also hoped that there will be a large number of entries for the Ten Minutes Paper Competition. The Committee will be pleased to receive suggestions from the members for increasing the usefulness of the Society. Will members please inform all articled clerks to Chartered Accountants who are not members of the Society, of its activities.

Company Law.

By Wilfred H. Grainger, A.S.A.A.

A thorough knowledge of Company Law is essential to a business man, and Mr. Grainger has here concisely summarised the provisions of the Companies Consolidation Act, 1908, giving references to many of the leading cases.

Incorporation may be effected not only under the Companies Consolidation Act, but also by Royal Charter and by Special Acts of Parliament, such as the Life Assurance, Friendly Societies, and Building Societies Acts.

Under the Companies Consolidation Act, which came into force on 1st July 1908, any seven persons may form themselves into an incorporated company, which may be one of five different kinds, with liability, viz. :—

- (1) Limited by shares.
- (2) Liability limited by guarantee, without share capital.
- (3) Liability limited by guarantee, and having a share capital.
- (4) Unlimited liability and having a share capital.
- (5) Unlimited liability and not having a share capital.

And any of these may be either a public or a *private company.

I do not propose to consider all the above classes, but to deal with the first, viz. a company with liability limited by shares. Let us see first of all exactly what is meant by incorporation, by this the members composing a company are formed into a corporation which becomes a distinct entity apart from the members composing it, and able to sue its own members and be sued by them, and the property of the corporation and not that of its members becomes liable for its debts.

It is worth noticing the ways in which the members of a *company differ from the members of a partnership*. Briefly, they are as follows :—

- (a) A partnership is not recognised as having individuality apart from the members composing it, a company has.
- (b) All partners have equal rights of management, whereas in a company the management usually vests in a body of directors.
- (c) A partner's liability for the firm's debts is unlimited (unless he be a limited partner), whereas in a limited company a member's liability is limited to the amount of his share or guarantee.
- (d) Partners are agents for the firm and one another. Shareholders of a company are not.
- (e) Partners cannot transfer their shares in the partnership so as to give the transferee powers equal to their own (except in the case of a limited partner). Shareholders of a company may do so.

Every company incorporated under the Company's Act must have what is called a

* (a) Restricts the right to transfer its shares.
(b) Limits number of members (exclusive of employees) to 50.
(c) Prohibits any public issue of shares and debentures.
(d) May have a minimum of 2 members.

Company Law.

Memorandum of Association.

This document is sometimes described as the charter of the company and may be regarded as a contract between the members of the company and the outside world, and when it has been registered confines the actions of the company to the specific terms contained in the memorandum. Any breach of these terms, or acts outside the same, being *ultra vires*, and, when registered, every person in the outside world is deemed to have received notice of it.

Now, this memorandum must contain the following particulars:—

- (1) The name of the company, with "limited" as the last word in its name, except in the case of unlimited companies and of associations, not for profit incorporated under licence of the Board of Trade.
- (2) The part of the United Kingdom (whether England, Scotland, or Ireland) in which the registered office of the company is to be situate.
- (3) The objects for which the company is established.
- (4) A statement that the liability of the members is limited. And in the case of a company limited by shares:—
- (5) The amount of share capital with which the company proposes to be registered, and the division thereof into shares of a fixed amount.

If the company is to be limited by guarantee *without* a share capital, instead of Clause 5 the memorandum must contain:—

- (5) A declaration that each member undertakes to contribute a specified amount in the event of the company being wound up during the time that he is a member or within one year afterwards.

It must be signed by the seven or more persons who are forming the company, and each must write opposite his name the number of shares he agrees to take.

The *registration* of the memorandum with the Registrar of Joint Stock Companies is in reality the formal creation of the company, and it then commences to have a corporate existence.

In addition to the "memorandum" most companies have "*articles of association*," which must be carefully distinguished from the former, these being the rules or bye-laws which govern the internal administration of the company, and whilst the memorandum is obligatory, the articles are optional, and any company not providing their own articles are governed by the rules of Table A (the schedules at the end of the Companies Act), and even where articles are in existence, the regulations under Table A will still apply, unless expressly excluded.

Upon registration, the memorandum must be impressed with a ros. stamp, and also with a stamp representing the fees payable upon the share capital of the company, at the rate of 5s. per cent. upon the nominal capital.

Before the Registrar of Joint Stock Companies will issue a *certificate of incorporation*, it is necessary that the following documents must be filed:—

- (1) Memorandum and articles of association (if any).
- (2) A list of directors, with their written consent to act.
- (3) A written contract by the directors that they will take the necessary qualification shares.
- (4) A statutory declaration that all the regulations of the Companies Act as to registration, &c., have been complied with to be filed by a director, secretary, or company's solicitor.

Now, although the certificate of incorporation is evidence that all necessary formalities as to registration have been complied with it will not (except in the case of a private company) entitle the company to commence business. Before this is possible it is necessary that the following conditions have been complied with, viz.:—

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A public company cannot commence business until—

- (a) Shares (subject to the payment of the whole amount thereof in cash) to an amount not less than the minimum subscription have been allotted.
- (b) Every director has paid a proportion in cash equal to that paid by public on application and allotment on all shares contracted to be taken by him.
- (c) A statutory declaration that these conditions have been complied with has been filed.

Public companies not issuing a prospectus must prepare and file a statement in lieu of same, which must be signed by the directors.

Companies issuing a *prospectus* must include therein certain particulars required by the Act (to which I shall refer later), and each director must sign the copy, which is then filed with the Registrar.

The prospectus will, of course, invite applications from the public for shares, and, upon a sufficient number being received, to cover the amount of the minimum subscription, the company may then proceed to allot the shares. Within one calendar month after the allotment, the company must file with the Registrar a return showing details of the shares allotted, and also the statutory declaration by one of the directors or the secretary that I referred to just now.

The Registrar will then issue a *certificate entitling the company to commence business*.

The next point that arises is the *statutory meeting* of the company, and this must be held not less than one month nor more than three months from the date of the receipt of the certificate just referred to, and seven clear days before the meeting, the directors must forward to every member a copy of the report required by Section 65, which contains the auditor's certificate as to receipts and payments on account of capital, &c.

The question very frequently arises as to the exact status of the *preliminary agreements* entered into on behalf of the company that is being formed.

These are usually executed in the names of the vendor and either the company itself or a trustee nominated to act on its behalf. In the former case, as it is legally impossible for a company to enter into contracts before it has come into existence, the company cannot be bound by any such contract until the directors adopt it after incorporation has taken place, and, in the latter, the trustee will be personally bound, unless protecting himself by including a power of rescission.

It is quite usual to find a condition embodied in the memorandum providing that the company shall adopt any preliminary contracts entered into on its behalf.

By Section 87, Subsection 3, any contract made by a company before it is entitled to commence business is provisional, and only becomes binding when the certificate to commence business has been received.

To return to the memorandum and the details that must be contained therein, the following points are deserving of attention:—

(1) A company may adopt *any name*, providing it does not so closely resemble that of another company as to deceive the public, as was the case in *Tussaud v. Tussaud*, where Madam Tussaud & Sons, Ltd., obtained an injunction restraining Louis J. K. Tussaud from registering a waxworks exhibition in the name of Louis Tussaud, Ltd., as it was held that were he allowed to register under this title he would be obtaining the benefit of the goodwill attaching to the older company and also deceiving the public, who would naturally be under the impression they were seeing the "original Madam Tussaud's waxwork's exhibition."

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Every company (with the exception of unlimited companies and associations incorporated under licence from the Board of Trade and not carrying on business for purposes of profits) must have the word "limited" as the last word of its title—and this name must be legibly painted or affixed outside its place of business and also be clearly shown in its seal and in all official publications, documents, cheques, bills of exchange, receipts, &c.

This is particularly important in the case of *bills of exchange*, for it was held in the case of *Atkins v. Wardle* that the directors of a company were personally liable for the amount of a bill of exchange accepted by them as directors of the company, because the name was incorrectly given in the draft and the acceptance.

Except with the written consent of the Home Secretary, a company must not make use of the words Royal, Imperial, King, Queen, Crown, Emperor, or Empress as part of its name. Should a company desire to change its name, it may do so by special resolution and consent of the Board of Trade, which must be registered with the Registrar and a certificate of registration obtained.

II.—THE REGISTERED OFFICE.

This clause must definitely state where the registered office is to be situated, i.e. England, Scotland, or Ireland, and the actual address of the company does not appear here, as it is stated in another document, and no alteration can be made without the sanction of a Special Act of Parliament.

III.—THE OBJECTS CLAUSE.

This is by far the most important clause of the memorandum, as it limits the nature of the business that a company can legally carry on, and directors who undertake any business outside the limits given by the memorandum will be personally liable for any losses incurred. Since the memorandum is registered, all persons dealing with a company are considered to have had notice of any limitations as to the company's capacity to contract, and if, therefore, any contract is entered into which is *ultra vires*, the contracting parties not only obtain no rights against the company, but the company may recover any moneys paid under such a contract (*Great Eastern Railway Co. v. Turner*). It must not, however, be assumed that everything is *ultra vires* which is not included in so many words in the memorandum, and anything that may fairly be regarded as incidental to the objects mentioned will *not*, unless expressly prohibited, be regarded as *ultra vires*, e.g., take the case of a hotel company, Buckley, L.T., stated: "In a large number of cases the maintenance of a garden and pleasure ground, tennis lawns, or a bowling green" would be legitimate, provided the hotel were in a suitable situation, but if "it were situate in the Strand, the right would probably no longer exist, and" the question becomes one of fact in each case."

The following acts have been held to be *ultra vires* :—

A company has power to defend an action against the editor for a libel in a newspaper published by the company or paying costs of proceedings against a person who has libelled the directors *and* the company, but *not* if the libel is on the directors alone (*Studdert v. Grosvenor*), and, in the case of the *Cyclists' Touring Club*, it was held that this company was promoted to protect the rights of cyclists and their power could not be extended to include the rights of motorists.

The objects clause may, however, be altered as follows :—(a) With a view of extending the particular business of the company, but the Court will not sanction an alteration that would enable a company to carry on a business that had no connection whatever with the business for which the company

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was formed ; (b) The Court must be satisfied that sufficient notice of the alterations has been given to the holders of debentures or any persons likely to be affected by the alterations ; (c) That, in the case of any creditor objecting, either his consent or acknowledgment that his debt or claim has been discharged is proved to the Court's satisfaction.

The capital clause of a company may be altered in the following respects :—

A company may make alterations in its capital in various ways :—

- (1) It may increase its capital.
- (2) It may reduce its capital.
- (3) It may enforce forfeitures of shares and, under certain conditions, accept surrender of shares.
- (4) It may consolidate its shares into shares of larger amount and convert its paid-up shares into stock, and subsequently reconvert the stock into shares.
- (5) It may sub-divide its shares.

(1) A company, if authorised by its articles, may increase its share capital by the issue of new shares to such amount as it thinks expedient, and this authority may require either a special or an ordinary resolution to be passed before the increase can be made, but in either case notice must be given to the Registrar of Joint Stock Companies within fifteen days after the date of the resolution.

If the articles give no power, then it will be necessary to alter the articles by special resolution, and the alteration can then be made in accordance with the terms of the special resolution.

(2) Reduction of Capital.

By Section 46 power is given to a company to :—

- (a) Extinguish or reduce the liability on any of its shares in respect of share capital not paid up ; or
- (b) Either with or without extinguishing or reducing liability on any of its shares, cancel any paid-up share capital which is lost or unrepresented by available assets ; or
- (c) Either with or without extinguishing or reducing liability on any of its shares, pay off any paid-up share capital which is in excess of the company's wants.

This being additional to the powers given in Section 40, which allows a company to return accumulated profits to shareholders in reduction of paid-up capital, and Section (41) by which they may cancel shares which have not been taken or agreed to be taken.

- (a) The creditors of a company can oppose the reduction of capital, except in the following cases, where the reduction does not involve either the diminution of any liability in respect of unpaid capital or the payment to any shareholders of paid-up capital.
- (b) The Court may give its sanction in spite of the opposition of a creditor, or creditors, providing the company sets aside a sum sufficient to satisfy the claims of the creditors.

Where such a reduction has taken place, the words " and reduced " must be placed after the word " limited " in the title of the company, but the Court may dispense with this addition in cases where there is no diminution of liability or repayment of capital to the members.

(3) Forfeiture and Surrender of Shares.

Unless authorised by the articles, a company cannot either forfeit or accept surrender of shares without leave of the Court.

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(4) By Section 41—

“ If so authorised by its articles,” a company limited by shares may consolidate and divide all or any of its share capital into shares of larger amount than its existing shares, or convert all or any of its paid-up shares into stock, and may subsequently reconvert such stock into paid-up shares, and thereafter every copy of the memorandum must be in accordance with the alteration.

It should be noted that a company cannot make an original issue of stock, it must first issue shares and these, when fully paid, may be converted into stock.

(5) *Subdivision of Shares.*

In cases where the capital of the company is divided into shares of a large amount, it is sometimes considered desirable to subdivide them into shares of smaller amount, as, for example, each share of a hundred pounds into ten shares of ten pounds, or each share of ten pounds into ten shares of one pound. Section 41 allows a company limited by shares to do this by special resolution, if the company is so authorised by its articles. If, therefore, power to pass such a resolution is not contained in the articles, two special resolutions will be required—one taking power “ by special resolution ” to sub-divide, the other acting upon that power.

The memorandum and articles of association, when once they have been registered, bind the company and its members to the same extent as if each had signed and sealed them, and every person dealing with the company is considered to have notice of any limitations contained in the articles, and contracts will be construed accordingly.

As I stated just now it is not obligatory upon companies to adopt articles of association, for Section 11 provides that the regulations of Table A shall apply in so far as they are not modified or excluded.

Large companies almost invariably adopt their own articles and exclude Table A, whilst some adopt Table A, except as to certain sections. Unlike the memorandum, articles may be altered at any time by special resolution without obtaining the consent of the Court. The only restriction upon this power being as to anything that would be unjust, unfair, or likely to defraud a minority of shareholders, or anything illegal, or *ultra vires*.

Issue of Prospectus.

By Section 285 a prospectus is defined as “ any prospectus, notice, circular, advertisement, or other invitation offering to the public for subscription or purchase any shares or debentures of a company.”

Prospectus to be Dated and Filed (Section 80).

Every prospectus issued by or on behalf of a company or in relation to any intended company must be dated, and such date, unless the contrary is proved, is to be taken as the date of publication of the prospectus. Before the date of publication a copy of the prospectus must be signed by every person named as a director or proposed director, or by his agent, authorised in writing, and filed with the Registrar. Until so filed the prospectus must not be issued, and when issued it must bear on the face of it a statement that it has been filed with him. The Registrar is forbidden to register any prospectus unless it is dated and signed as above mentioned.

Every prospectus must contain the following particulars :—

- (1) The contents of the memorandum of association, including the names, addresses, and descriptions of the signatories and the number of shares subscribed for by them respectively.

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- (2) The number of founders', management, or deferred shares (if any), and the nature and extent of the holder's interest in the property and profits of the company. (This will require a statement both of their rights as to dividends and to share in the assets in case of a winding-up.)
- (3) The amount of the directors' share qualification.
- (4) The provisions in the articles of association as to the remuneration of the directors. (To comply with this it will be necessary practically to set out the articles verbatim.)
- (5) The names, descriptions, addresses, nationality, and occupation of the directors or proposed directors. (As regards description, it is thought that it will not suffice to say "Director of the A.B. Co., Ltd.," but that a real description must be given. As regards address, it has been held, under a rule of the Supreme Court requiring a plaintiff to give his address, that this means his residence, and that his place of business is not sufficient.)
- (6) The minimum subscription on which the directors may proceed to allotment, and sums payable on application and allotment.
- (7) Details of any shares and debentures issued or agreed to be issued during preceding two years, either fully or partly paid up otherwise than in cash and the consideration for which the issue is made.
- (8) Names and addresses of vendors of property acquired by the company and details of the consideration paid for such property.
- (9) The amount paid for goodwill, if any.
- (10) The amount of any commission paid during preceding two years for procuring subscriptions.
- (11) Amount or estimated amount of preliminary expenses.
- (12) Amount paid within preceding two years to any promoter.
- (13) The dates and parties to every material contract entered into within two years, stating where the same may be inspected.
- (14) Names and addresses of auditors, if any.
- (15) Full details of the interest that any director may have in the promotion of the company or in the property acquired by the company.
- (16) The voting rights of shareholders of each class of share.

Space will not permit more than a passing glance at a few of the most important of these particulars.

(1) It must be noticed with regard to the *minimum subscription* that no allotment of shares may take place until the minimum has been received, and it has been held in the case of *Mears v. Western Canada Pulp & Paper Co.* that cheques received in application for shares do not rank as part of the necessary amount until they have been cashed, neither do cheques received and held over, although subsequently honoured—consequently you will see the necessity for directors not to proceed to allotment until applicant's cheques have been cashed.

Section 85 provides that if the necessary sum is not subscribed within 40 days after the first issue of the prospectus, then all application money must be returned, and, if the same is not returned within 48 days, the directors are liable to interest at 5 per cent. from that time.

Misrepresentation in Prospectus.

If a shareholder can show that he was influenced in his application for shares in a company by a material misrepresentation he is entitled to apply for a return of all monies paid by him, together with interest at 4 per cent. from the time of payment, but this will not apply in the case of a person buying the shares from another.

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Rescission of a contract to take shares may be obtained when the shareholder is able to show :—

- (a) That a mis-statement was made by or on behalf of the company.
- (b) That it was a material one.
- (c) That he relied upon it in taking the shares.
- (d) That he came for relief before liquidation and within a reasonable time.

But it need not show that the statement was made fraudulently or was known to the directors to be untrue.

It often becomes a question as to how far the company is liable for the misrepresentations made, and the decisions in various cases may be summed up as follows :—

- (1) The statements must have been made by the directors or general agents of the company.
- (2) By a special agent acting within the scope of his authority.

So also material *omissions* may amount to a misrepresentation, e.g. the omissions of the real name of the vendor, and the insertion of a fictitious vendor in order to conceal true facts.

In addition to the right to repudiate shares applied for, upon the issue of a false prospectus, the shareholder may also claim damages. Prior to the Directors' Liability Act, 1890, the only remedy was an action for deceit ; but since that date and by Section 84, which incorporates that Act, the shareholders may bring an action for damages against either director or promoters, providing he can show :—

- (a) That a mis-statement was made by the persons sought to be charged.
- (b) That it was a material one.
- (c) That he was induced by the mis-statement to take the shares.
- (d) That he has suffered damage, for " fraud without damage or damage without fraud, gives no cause for action, but where these two concur an action lies."
- (e) But if the persons charged prove that they believed the statement to be true, and had reasonable grounds for such belief, the action will fail.

The only way in which a person liable under this section can escape liability is by proving :—

(a) That, having consented to become a director, he withdrew his consent before the issue of the prospectus, and that the prospectus was issued without his authority or consent ; or (b) that the prospectus was issued without his knowledge or consent, and that on becoming aware of its issue he forthwith gave reasonable public notice that it was so issued without his knowledge or consent ; or (c) that after the issue of the prospectus, and before allotment thereunder, he, on becoming aware of an untrue statement therein, withdrew his consent thereto and caused reasonable public notice of such withdrawal and of the reason therefor to be given.

In this connection the axiom "*actio personalis moritur cum persona*" must be mentioned, but here the action survives to the extent of the profit or loss resulting to the estate of plaintiff or defendant, so that where a person has taken shares on the faith of a misleading prospectus his executors can commence or continue an action for the loss suffered by his estate, but where a director or promoter dies, his executors can only be sued providing his estate has received benefit by the fraud.

Commission on Underwriting.

Section 89 gives power to a company to pay commission upon underwriting agreements or for obtaining subscribers to the share capital, but such commission must be authorised by its articles and must not exceed the amount or rate per cent. thus authorised.

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It will possibly occur to some that this payment of commission practically amounts to issuing shares at a discount, but it is not the same, since if the company went into liquidation before the commissions were paid the whole amount of shares could be called up, whilst the shareholders would be an unsecured creditor for his commission.

Preliminary Expenses.

Section 81 requires the prospectus to give an estimate of preliminary expenses to be incurred in floating a company, and the following list of items may be included under this heading:—

- (1) The cost of preparing, settling, and printing the memorandum and articles of association.
- (2) The cost of registering the company and the various documents required by the Acts, including stamp duties and fees.
- (3) The cost of preparing, printing, and circulating or advertising the prospectus.
- (4) The cost of the preparation and execution of all preliminary agreements, including the stamp duties thereon.
- (5) The fee (if any) paid to brokers for allowing their names to be advertised on the prospectus.
- (6) Law costs in connection with the formation and registration of the company, and the preparation and issue of the prospectus.
- (7) The cost of the preparation and printing of the debentures and the debenture trust deed (if any) including the stamp duty.
- (8) The cost of preparing, printing, and stamping letters of allotment and printing share certificates.
- (9) Probably, also, the cost of preparing and making the original books and seal of the company.

The amount paid or payable for underwriting commission and the amount paid or intended to be paid to any promoter, having to be stated separately. If the amount is not included in the figure given for preliminary expenses, it will be advisable to state expressly that the amount named is exclusive of these.

STATUTORY MEETING.

Section 65 provides that the first statutory meeting of a company must be held not less than one month nor more than three months after the company is entitled to commence business, and seven days before the date of the meeting a report certified by not less than two directors must be sent to every member, giving the following particulars:—

- (1) The total number of shares allotted, distinguishing those issued as fully or partly paid up otherwise than in cash, and stating the consideration for which they have been allotted.
- (2) The total amount of cash received by the company in respect of all the shares allotted, distinguished as aforesaid.
- (3) An abstract of the receipts of the company on account of its capital, whether from shares or debentures, and of the payments made thereout, up to a date within seven days of the date of the report, exhibiting under distinctive headings the receipts of the company from shares and debentures and other sources, the payments made thereout, and particulars concerning the balance remaining in hand and an account or estimate of the preliminary expenses of the company.
- (4) The names, addresses, and descriptions of the directors, auditors (if any), managers (if any), and secretary of the company. (This will show if there has been any change since the issue of the prospectus.)

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- (5) The particulars of any contract the modification of which is to be submitted to the meeting for its approval, together with the particulars of the modification or proposed modification.

Here we have one of the first important duties of an auditor under the Act, for Subsection 4 of Section 65 states that the statutory report shall, so far as it relates to the shares allotted by the company and to the cash received in respect of such shares, and to the receipts and payments of the company on Capital Account be certified as correct by the auditors, if any, of the company.

A copy of the statutory report must be filed with the Registrar of Joint Stock Companies.

In this connection I think it may be useful if I interpolate a short audit programme, which will be useful to accountants who may be required to certify such a report.

The form of the auditor's certificate in connection with this report is as follows :—

“ We, the undersigned, being the auditors of the company, hereby certify that so much of this report as relates to the shares allotted, the cash received in respect of such shares, and the receipts and payments of the company on Capital Account, is correct.”

SHARE CAPITAL AUDIT.

The following are the principal points in a Share Capital Audit :—

1. Check application and allotment letters with Application and Allotment Book.
2. Check Application and Allotment Book to Share Ledger.
3. Check all Minutes of Allotment.
4. Check Pass Book with Shareholders' Cash Book.
5. Check postings of Shareholders' Cash Book to Share Ledger.
6. Check moneys returned to applicants for share not allotted.
7. In the event of shares being issued other than for cash, see the contract and that it is properly filed at Somerset House.
8. If any shares are issued to the nominees of the vendor, see that written authority is given by the vendor to allot to such persons and that the shares so allotted are included in the contract with the vendor filed at Somerset House.
9. Verify the calls made and check the Call Books to the Share Ledger.
10. Verify cash received in respect of calls with Bank Pass Book.
11. Check cash received on account of calls to Share Ledger.
12. Check balances of Share Ledger, to see that the total balances agree with the total number of shares issued.
13. See that the total issued is within the authorised issue according to the memorandum and articles.
14. See that the minimum subscription (if any) has been reached before allotment.
15. See that the proper returns of allotments have been made to Somerset House.

STOCKS AND SHARES.

The memorandum of a company must show the division of its capital with shares of a fixed amount. Now these shares may be of various kinds, but each must bear a distinctive number and each share is a unit of the company's capital and cannot be split unto fractions (as is the case with stock).

There are usually Ordinary and Preference Shares, the latter being divided into two classes : (a) Those having preferential rights as to dividends and (b) those having also preferential rights against the assets of the company in case of liquidation.

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These rights are usually given by the memorandum ; they may also be given by the articles, but as the articles may very easily be altered, it follows in such a case the rights of the shareholders might also be altered.

Shares are also sometimes described as being Cumulative Preference Shares, which, as the term implies, gives the holder the right to arrears of unpaid dividends being carried forward until such time as the company is in a position to pay them, but even if shares are only described as preference, it has been decided that they are cumulative as to dividends, so that the term appears to be somewhat superfluous (*Webb v. Earl*).

Companies sometimes adopt the practice of remunerating the vendors or promoters in part by the issue of what are called Founders Shares ; these are, in effect, Deferred Shares, i.e. they receive no dividend until a dividend fixed by agreement has been paid upon the Ordinary and Preference Shares ; the existence of such shares naturally decreases the value of the ordinary shares.

Section 81 provides that particulars of all such shares must be disclosed in the prospectus. By Section 92—

(1) Every company shall, within two months after the allotment of any of its shares, debentures, or debenture stock, and within two months after the registration of the transfer of any such shares, debentures, or debenture stock, complete and have ready for delivery the certificates of all shares, the debentures, and the certificates of all debentures stock allotted or transferred, unless the conditions of issue of the shares, debentures, or debenture stock otherwise provide.

(2) If default is made in complying with the requirements of this section, the company and every director, manager, secretary, and other officer of the company who is knowingly a party to the default, shall be liable to a fine not exceeding five pounds for every day during which the default continues.

STATUTORY BOOKS.

The Statutory Books required to be kept by all companies are :—

(1) *Register of Members*, which according to Section 25 must contain the following particulars :—

- (1) The names and addresses, and the occupations, if any, of the members, and in the case of a company having a share capital a statement of the shares held by each member, distinguishing each share by its number, and of the amount paid or agreed to be considered as paid on the shares of each member.
- (2) The date at which each person was entered in the register as a member.
- (3) The date at which any person ceased to be a member.

It is a common practice to combine the Register of Members and the Shareholders so as to show the number of shares held by each member, the distinctive numbers of the shares, the amount called up and paid on the shares, and the other details required by Section 25.

The Register must be open to the inspection of any member of the company gratis, and to any other person upon a payment of 1s., and any member or other person may require and is entitled to a copy of this or of the annual list and summary upon the payment of 6d. per 100 words.

It should be noticed that an infant may become a member either by signing the memorandum or by transfer, but a company has power to refuse to accept a minor as a shareholder and should always do so if the shares are not fully paid up for the infant may repudiate the shares on attaining majority, and should he do so the person transferring the shares to him will become liable and will be placed on the Register or B List of the contributories, as the case may be.

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An infant will be liable to calls, although they cannot be enforced against him, and in the case of *Crenver Co. ; ex parte Wilson*, a director who procured an allotment to his infant children who were minors when the company was wound up was held liable to pay the calls that could not be enforced against the infants.

Register of Mortgages.

By Section 100 every limited company must keep a register of all mortgages and charges specifically affecting the property of the company, in which must be entered a short description of the property mortgaged or charged, with the amount of charge created, and except in the case of securities to bearer the names of the mortgagees or persons entitled to such charge. If any property of the company is mortgaged or charged without such entry being made, every director, manager, or other officer of the company who knowingly and wilfully authorises or permits the omission is liable to a penalty of fifty pounds.

The Register of Mortgages must be open to the inspection of any person upon payment of a fee not exceeding 1s.

Section 93 is very important, and states that—

Every mortgage or charge created after the first day of July nineteen hundred and eight by a company registered in England or Ireland, and being either—

- (a) A mortgage or charge for the purpose of securing any issue of debentures ; or
 - (b) A mortgage or charge on uncalled share capital of the company ; or
 - (c) A mortgage or charge created or evidenced by an instrument which, if executed by an individual, would require registration as a bill of sale ; or
 - (d) A mortgage or charge on any land, wherever situate, or any interest therein ; or
 - (e) A mortgage or charge on any book debts of the company ; or
 - (f) A floating charge on the undertaking or property of the company
- must be registered within twenty-one days after its creation or it is void against creditors and liquidators.

Minute Book.

Section 71 provides that a record must be kept of all proceedings of general and directors' meetings, and the minutes of the same must be signed by the chairman of the next meeting.

This is a most important book to auditors, who will require to inspect it for many purposes, such as the verification of allotments of shares, authorisation of calls, investments, appointments of officers, salaries, and the like.

Section 75 requires a register of *directors and managers* to be kept, containing their names, addresses, occupations and nationality, and a copy to be filed with the Registrar, who must also be notified of any change in the directorate or management.

Annual List and Summary.

Section 26 (1) : Every company having a share capital shall once at least in every year make a list of all persons who, on the fourteenth day after the first or only ordinary general meeting in the year are members of the company, and of all persons who have ceased to be members since the date of the last return or (in the case of the first return) of the incorporation of the company. (2) The list must state the names, addresses, and occupations of all the past and present members, therein mentioned, and the number of shares held by each of the existing members at the date of the return, specifying shares transferred since the date of the last return or (in the case of the

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first return of the incorporation of the company) by persons who are still members and have ceased to be members respectively, and the date of registration of the transfers, and must contain a summary distinguishing between shares issued for cash and shares issued as fully or partly paid up otherwise than in cash, and specifying the following particulars :—

- (a) The amount of the share capital of the company and the number of the shares into which it is divided.
- (b) The number of shares taken from the commencement of the company up to the date of the return.
- (c) The amount called up on each share.
- (d) The total amount of calls received.
- (e) The total amount of calls unpaid.
- (f) The total amount of the sums (if any) paid by way of commission in respect of any shares or debentures, or allowed by way of discount in respect of any debentures, since the date of the last return.
- (g) The total number of shares forfeited.
- (h) The total amount of shares or stock for which share warrants are outstanding at the date of the return.
- (i) The total amount of share warrants issued and surrendered respectively since the date of the last return.
- (k) The number of shares or amount of stock comprised in each share warrant.
- (l) The names and addresses of the persons who at the date of the return are the directors of the company, or occupy the position of directors, by whatever name called; and
- (m) The total amount of debt due from the company in respect of all mortgages and charges which are required to be registered.

(3) The summary must also (except where the company is a private company) include a statement, made up to date as may be specified in the statement, in the form of a Balance Sheet, audited by the company's auditors and containing a summary of its share capital, its liabilities, and its assets, giving such particulars as will disclose the general nature of those liabilities and assets, and how the value of the fixed assets have been arrived at, but the Balance Sheet need not include a statement of profit.

This section embodied a new provision, enacted by the 1907 Companies Act, viz. that in connection with the Balance Sheet it is now necessary to state how the value of the fixed assets have been arrived at, and some such statement as :—

“Freehold property is taken at cost price; stock as valued by the manager; investments at market price, 31st December,”
will probably be sufficient to satisfy this requirement.

DIVIDENDS.

A further new provision of considerable importance was introduced in 1907 and incorporated in Section 91 of the Companies Consolidation Act, 1908, giving power to a company to pay interest out of capital in certain cases, viz., where a company issues shares to defray the cost of constructing buildings, works, or plant, which cannot be made profitable for a lengthened period, subject, however, to the following conditions :—

- (1) No such payment shall be made unless the same is authorised by the articles or by special resolution.
- (2) No such payment, whether authorised by the articles or by special resolution, shall be made without the previous sanction of the Board of Trade.

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- (3) Before sanctioning any such payment, the Board of Trade may, at the expense of the company, appoint a person to inquire and report to them as to the circumstances of the case, and may, before making the appointment, require the company to give security for the payment of the costs of the inquiry.
- (4) The payment shall be made only for such period as may be determined by the Board of Trade, and such period shall in no case extend beyond the close of the half year next after the half year during which the works or buildings have been actually completed or the plant provided.
- (5) The rate of interest shall in no case exceed 4 per cent. per annum or such lower rate as may for the time being be prescribed by Order in Council.
- (6) The payment of the interest shall not operate as a reduction of the amount paid up on the shares in respect of which it is paid.
- (7) The accounts of the company shall show the share capital on which, and the rate at which, interest has been paid out of capital during the period to which the accounts relate.

■ Apart from this power, no company may pay dividends except out of profits, and directors who wilfully pay dividends out of capital will be personally liable to make good the same. (*Kingston Cotton Mills, &c.*)

It has been held, however, that they are not liable if the dividend has been paid upon the result of a *bona fide* valuation of assets afterwards found to be over-estimated (*Stringer's case*), and also a director was excused liability who was absent when an interim dividend was authorised by his co-directors.

Shareholders, knowing they are receiving dividends paid out of capital, have been ordered to indemnify directors for the amounts so received. (*Maxham v. Grant.*) It is not by any means easy to decide what are profits available for the payment of dividend, but as a general rule the excess of a company's earnings after deducting its expenses is the amount of its profits; but before arriving at the profits available for dividends it is only right that depreciation should be provided for in respect of its wasting assets, and it has become a generally accepted principle that losses arising from fixed assets need not be made good, but those occurring upon floating assets must be—before a dividend can be paid—although it is often a question of fact in each case as to what are and what are not fixed assets.

The following rules are suggested by an authority for the guidance of directors in this matter:—

- (a) Every company should, as far as possible, provide for unexpected losses by creating a Reserve Fund.
- (b) Provision should be made out of profits for replacing depreciation or wasting property, such provision being measured by the length of time during which the property may reasonably be expected to last; and in like manner sums should be set aside to allow for debts proving bad.
- (c) Accidents such as ordinarily occur should be made the subject of insurance, the premiums being paid out of profits
- (d) If a loss occurs and the provision made in previous years is not sufficient to make good the amount, it is not safe to pay dividends until the loss is made good, although there is a strong ground for arguing that under such an article as Clause 80 of the original Table A the loss might be spread over several years, the company paying a reduced dividend meanwhile.
- (e) If the loss is large, so that it cannot be made good out of profits within a reasonable period, the capital should be reduced with the sanction of the Court.

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AUDIT.

I have left the most important part of the Act affecting accountants to the end, and this is, of course, the provision made for audit and auditors. Sections 112 and 113 are so important that I must give them in full :—

- (1) Every company shall at each annual general meeting appoint an auditor or auditors to hold office until the next annual general meeting.
- (2) If an appointment of auditors is not made at an annual general meeting, the Board of Trade may, on the application of any member of the company, appoint an auditor of the company for the current year, and fix the remuneration to be paid to him by the company for his services.
- (3) A director or officer of the company shall not be capable of being appointed auditor of the company.
- (4) A person, other than a retiring auditor, shall not be capable of being appointed auditor at an annual general meeting unless notice of an intention to nominate that person to the office of auditor has been given by a shareholder to the company not less than fourteen days before the annual general meeting, and the company shall send a copy of any such notice to the retiring auditor, and shall give notice thereof to the shareholders, either by advertisement or in any other mode allowed by the articles, not less than seven days before the annual general meeting.
- (5) The first auditors of the company may be appointed by the directors before the statutory meeting, and, if so appointed, shall hold office until the first annual general meeting, unless previously removed by a resolution of the shareholders in general meeting, in which case the shareholders at that meeting may appoint auditors.
- (6) The directors may fill any casual vacancy in the office of auditor, but while any such vacancy continues, the surviving or continuing auditor or auditors, if any, may act.
- (7) The remuneration of the auditors of a company shall be fixed by the company in general meeting, except that the remuneration of any auditor appointed before the statutory meeting or to fill any casual vacancy may be fixed by the directors.

Section 113 :—

- (1) Every auditor of a company shall have a right of access at all times to the books and accounts and vouchers of the company, and shall be entitled to require from the directors and officers of the company such information and explanation as may be necessary for the performance of the duties of the auditors.
- (2) The auditor shall make a report to the shareholders on the accounts examined by them and on every Balance Sheet laid before the company in general meeting during their tenure of office, and the report shall state :—
 - (a) whether or not they have obtained all the information and explanations they have required ; and
 - (b) whether, in their opinion, the Balance Sheet referred to in the report is properly drawn up so as to exhibit a true and correct view of the state of the company's affairs and according to the best of their information and the explanations given to them and as shown by the books of the company.

Subsection iv. is of very great importance to auditors, and was first introduced in the 1907 Act. There is no doubt it was introduced to prevent

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a company quietly displacing an auditor who had been too conscientious in his duties or too frank in his report for the directors' liking, for, under the old Act, he could be displaced without any notice either to the shareholders or the auditors.

It should be noticed that the 1900 Act required the auditors to give a certificate and a report, but under the Consolidation Act these are now blended in one report. There is unfortunately nothing in the Act to provide that auditors must be qualified in any way, although when the Bill of 1907 was before Parliament there was a provision that at least one auditor of every company having a capital of £100,000 should be a professional accountant. It was, alas, rejected.

It has been said that auditors are agents for the shareholders, and it is their duty to investigate the affairs of the company and to report to the shareholders upon them, and where any loss arises to the company by the neglect of this duty the auditors may be held personally responsible. (*Leeds Estate Building Society v. Sheppard.*)

When once the auditors have made a report to the directors they must firmly refuse to either modify it or suppress any part of it.

DECISIONS AFFECTING AUDITORS.

Lee v. Neuchatel Asphalte Co., Ltd.—

Held, that a company may by its articles of association provide for the distribution of profits arrived at before making good the depreciation of fixed assets.

Verner v. The General and Commercial Investment Trust, Ltd.—

Held, that an injunction to restrain a company from paying a proposed dividend out of current profits on the ground that the capital of the company is not intact must be refused if the company is solvent and acting within its articles.

Wilmer v. McNamara & Co., Ltd.—

Held, that a company cannot be restrained from declaring a dividend out of current profits, because no provision has been made for depreciation of fixed assets.

Cox v. Edinburgh and District Tramways Co., Ltd.—

Held, that when a tramways company alters its system from horse traction into cable traction, nothing need be written off Capital Account before paying dividends out of current profits.

Foster v. The New Trinidad Lake Asphalte Co., Ltd.—

Held, that an unexpected appreciation in the value of assets taken over by a company at its formation is not profit available for dividend, even though the asset in question be a book debt.

Lubbock v. The British Bank of South Africa, Ltd.—

Held, that if a company's articles of association so provide, a profit made on the sale of a part of the undertaking is available for dividend.

The Leeds Estate Building and Investment Society, Ltd. v. Shepherd.—

Held, to be an auditor's duty to see that accounts he certifies are actually correct. Liability for neglect.

The Irish Woollen Co., Ltd. v. Tyson and others.—

Held, that when the accounts of a company have been falsified, and dividends improperly paid out of capital in consequence, the auditor is liable if the falsifications might have been discovered by the exercise of reasonable care and skill.

The London and General Bank, Ltd.—

Held, that the auditor of a company registered under the Companies Act, 1879, is an "officer" of that company within the meaning of the Com-

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panies (Winding-up) Act, 1890, and, further, that an auditor is guilty of misfeasance who, when dissatisfied with the accounts of a company, does not plainly draw attention to the grounds for his dissatisfaction in his certificate.

In the case of the Kingston Mill Co., Ltd.—

Held, that in the absence of suspicious circumstances, an auditor is not guilty of negligence who relies upon the statement made by trusted officers of the company.

The London Oil Storage Co., Ltd. v. Seear, Hasluck & Co.—

Held, that it is the duty of the auditor of the company to take proper steps to verify the existence of assets stated in the Balance Sheet.

In conclusion, I should like to quote Lord Lindley's judgment in the *London & General Bank* case:—

"It is no part of an auditor's duty to give advice, either to directors or shareholders, as to what they ought to do. An auditor has nothing to do with the prudence or imprudence of making loans with or without security. It is nothing to him whether the business of a company is conducted prudently or imprudently, profitably or unprofitably. It is nothing to him whether dividends are properly or improperly declared, *provided he discharges his own duty to the shareholders.* His business is to ascertain and state the true financial position of the company at the time of the audit, and his duty is confined to that. But then comes the question, How is he to ascertain that position? The answer is: By examining the books of the company. But he does not discharge his duty by doing this without inquiry and without taking any trouble to see that the books themselves show the company's true position. He must take reasonable care to ascertain that they do so. Unless he does this, his audit will be worse than an idle farce. Assuming the books to be so kept as to show the true position of the company, the auditor has to frame a Balance Sheet, showing that position according to the books, and to certify that the Balance is correct in that sense . . . An auditor, however, is not bound to do more than exercise reasonable care and skill in making inquiries and investigations. He is not an insurer . . . What is reasonable care in any particular case must depend upon the circumstances of that case. Where there is nothing to excite suspicion very little inquiry will be reasonably sufficient, and in practice I believe business men select a few cases at haphazard, see that they are right, and assume that others like them are correct also. Where suspicion is aroused, more care is obviously necessary."

And that of Lopes, in the *Kingston Cotton Mill's* case:—

"It is the duty of an auditor to bring to bear on the work he has to perform that skill, care, and caution which a reasonably competent, careful, and cautious auditor would use. What is reasonable skill, care, and caution must depend on the particular circumstances of each case. An auditor is not bound to be a detective, or, as was said, to approach his work with suspicion, or with a foregone conclusion that there is something wrong. He is a watch-dog, not a bloodhound. He is justified in believing tried servants of the company in whom confidence is placed by the company. He is entitled to assume that they are honest, and to rely upon their representations provided he takes reasonable care. If there is anything calculated to excite suspicion, he should probe it to the bottom; but in the absence of anything of that kind he is only bound to be reasonably cautious and careful . . . It is not the duty of an auditor to take stock; he is not a stock expert; there are many matters in which he must rely on the honesty and accuracy of others. He does not guarantee the discovery of all fraud."

The Training and Equipment of a Woman Secretary.*

By Miss M. E. Wright.

(Of the London office of the Liverpool & London & Globe Insurance Company, Ltd.)

The uninitiated are apt to imagine that no special qualifications are necessary for a secretary, but in the following paper Miss Wright shows that this idea is entirely wrong, and deals fully with the knowledge and equipment without which efficiency is impossible.

The subject of my paper is, as you are aware, "The Training and Equipment of a Woman Secretary." A considerable part of this audience is composed of members of the sterner sex, whose knowledge of the subject may be somewhat slight, unless they number among their relatives or friends ladies who practise, or aspire to practise, the particular calling upon which I propose to speak. Whatever the point of view, I will endeavour to avoid being tedious in presenting the subject.

I will begin by a brief reference to one or two of those who in the past have practised the secretary's craft. The profession is one of the oldest in the world. Wherever there was a man of deeds, there invariably was also a secretary to record them. The profession of a secretary was also one of the most honourable. In ancient days the holder of such an office was always a prominent personage. Holy writ abounds with evidence on this point. The historical books of the Old Testament (from which, even in these modern days, the majority of people derive their chief knowledge of the period of history they cover) contain many references to the importance assigned to the position of a Scribe. Over and over again, in the books of Samuel, of the Kings, of the Chronicles, when a ruler succeeded to power, there are set forth the name of the King and the names of his ministers, among whom the Scribe is always mentioned in company with such prominent people as the Master of the Household, the Captain of the Host, and the Keeper of the Tribute. Even in those days there were evidently Scribes *and* Scribes, for, in the seventh chapter of the Book of Ezra, it is written of one man that he was a *ready* scribe. The same verse adds that to him the King granted *all* his requests—a very happy state of things, one would imagine, for that official.

As to the means by which ancient secretaries kept their records. In the days when the art of writing was unknown, the forerunner of the present-day secretary preserved his record by word of mouth (i.e. by means of songs); later, by rough drawings scratched with flints on rocks and stones; then, as civilisation slowly developed, and some three thousand years ago an alphabetic system of writing was evolved, by paintings on wood and skins by means of reeds; later, by the use of sharp-pointed instruments on boards covered with wax, or on clay tablets which were afterwards baked in the sun; and by many other means, until the Chinese invention of paper in the first century of our era made all former methods old-fashioned. The desirability of a more expeditious system of writing for taking notes was early felt. Various methods of comparatively rapid writing by means of characters briefer than ordinary writing were developed independently among the scribes of ancient nations.

*A paper read to the members of the No. 1 Cornhill Club, which consists of the London and District staffs of the Liverpool & London & Globe, the Central, and the Thames & Mersey Marine Insurance Companies.

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The first system of *shorthand* (which was an abbreviated system of long-hand) of which any account has come down to our time is attributed to Cicero, who some 2,000 years ago taught it to his secretary, a slave named Tiro. This Tiro (who is described as a youth of singular parts and industry, extremely serviceable to his master in all his affairs, both civil and domestic) improved the system considerably, and imparted it to a number of other slaves. (By the way, for several centuries shorthand writers were always slaves.) During the Consulate of Cicero these slaves accompanied Tiro in the train of their master, in order to report his speeches when that eminent man made an oration in the Senate. Their system of reporting was accomplished by means of what one may call "team" work, that is, the first man wrote about 20 words, the next man then did similarly, and so on. When all was over they fitted the portions together and produced the complete whole. This is the first record that has come down to us of shorthand writers being employed for public purposes. One report only, made by these men, has been preserved—namely, the speech of Cato in the Senate supporting Cicero in his denunciation of the famous Catiline conspiracy.

To digress for a moment, these shorthand writers and their successors, from their work of taking notes, were called *Notarii*, and from the fact that they grew more or less versed in the laws of the Empire, were regarded as lawyers. Our word *Notary* is thus derived.

To return to Tiro and his *Notarii*; these men wrote their notes on wax-covered boards by means of iron styles. When the notes were no longer required, the wax bearing the impression was rubbed smooth (cylindrical phonograph records are similarly treated to-day), and the board used over and over again until the wax grew too thin, when the board was re-coated. When it was desired to preserve a record, the characters were copied on to tablets of various materials, most frequently clay tablets, which were afterwards baked in the sun and thus made permanent. Eventually the use of the iron stylus was prohibited by law, bone or ivory being substituted. This was in consequence of a riot in the Senate, when certain *Notarii* stabbed to death with their styles a Senator whose views were in opposition to those of their master!

All the secretaries of ancient times appear to have been men. Woman as a secretary is an entirely modern product, and to trace her rise it is necessary to pass over a gap from Tiro of nearly 2,000 years. The gradual transition of society from the far-off communal life of the tribe to the highly-developed industrial system of to-day has produced a revolutionary change in the life of women. Until the last century it was, in Europe, usually on men alone that the burden fell of providing by their own exertions outside the home the food, clothes, home and protection which afforded the means of existence for themselves and their families. Women administered and developed *within the home* what had already been created—a very different thing.

But a new state of affairs was to arise. Towards the end of the 18th century the construction of canals in this country, followed soon after by the discovery of steam power, introduced improved means of transit. This, together with the introduction of machinery into manufacture, revolutionised the life of the whole world. The application of these new principles resulted in many complications and developments. Prior, say, to 1760, there was in England no system of employer and employed as we know it. Speaking generally, men and women carried on home industries, and produced for themselves and for their near neighbours what was required. But with better means of transit there came into existence the middleman, who took over and sold elsewhere the products of home industry, and thus stimulated output. This in turn afforded an impetus to invention, and resulted in the gradual introduction of methods which increased a hundredfold the output of individual workers. Then came the use of steam-power, followed

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by concentration in production, and the consequent development of the factory system. This system sounded the death-knell of the home industries of England, for from this time forward the mass of the people ceased to be their own masters.

In this country, the result was that for the first time it became necessary for the daughters of families, by the hundred thousand, to go outside their homes in order to seek the means of livelihood. In the early days of the movement there were practically only three principal avenues open to such women, viz. domestic and allied service, teaching in private families, and working in mills and similar undertakings; but during the last fifty years the spread of education has widened the general outlook, and the expansion of human activity consequent on improved means of transit all over the world has created innumerable new outlets, and called for workers of every kind and degree.

The stupendous increase of trade created openings for vast numbers of clerical workers. The continued development of trade hastened the use and perfection of the typewriting machine, which, in conjunction with shorthand, proved to be the "Open Sesame" for women desiring to enter business life. It was about the year 1886 that the appearance of the typewriter as a commercial instrument in this country began to draw women into business offices as typists and shorthand writers. As a rule they had no knowledge whatever of business, and their work being an innovation they had no previous experience to guide them. From the start they tended towards expertness in their craft rather than to real knowledge of the business in which they were engaged. To a greater degree than any other clerical worker they undertook work which could be done correctly without its *raison d'être* being necessarily understood. The effect of this was to make it difficult for shorthand-typists, pure and simple, to learn a business, and their opportunities for advancement were correspondingly limited. The recognition of the handicap was the first step towards improvement. The woman compelled to earn her own livelihood sought ways and means to improve her status.

Fortunately the enormous expansion of trade during the last quarter of a century, with its unlimited scope for ability of every degree, has provided women in business with opportunities for doing work of importance and interest, and there are now few branches of commerce in which women are not employed in one capacity or another. On the clerical side of business up to the present the greatest numbers of women have devoted themselves to shorthand-writing and typewriting. The higher grades of shorthand writers fall into two classes, one devoting itself entirely to competent high-speed work, and the other, which I shall now describe, undertaking the more varied duties of a secretary.

On the administrative or executive side of any undertaking, one of the most interesting positions open to a woman at the present time is that of secretary to a principal officer. In commerce, in these days, the head of an important undertaking entrusts the technical working of the business to experts in each branch. He himself devotes his attention to the general policy of the concern, and to the most important decisions arising out of each day's happenings. He holds his office because of his superior powers and larger mastery of affairs, and is apt to be a greatly occupied man who will find it essential to employ a secretary or secretaries. It is obvious that an efficient chief will require efficient service.

Up to the present, women secretaries have usually begun their careers as shorthand-typists, and, having been promoted, have gained knowledge and experience as they went along. This, of course, is an excellent method, but it is not ideal. Many qualifications are demanded of the modern secretary, and it is best to acquire as many of them as possible *before* entering on the actual practice of the secretarial career.

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What is the equipment to be acquired by a young woman desiring to become a *first-class* business secretary? In outline it is as follows:—

First.—A good general education.

Second.—First-class specialised knowledge of chief technical subjects.

Third.—Elementary business knowledge.

Good General Education.

The standard of education should be as high as possible—certainly not lower than matriculation standard—including at least one foreign language. I draw special attention to the importance of English. It is absolutely essential for a secretary to attain a mastery of fluent and correct composition. During the working day there is no time to consider over-long the construction of a sentence or to ponder phraseology, yet it is a *sine qua non* that correspondence shall accord with the dignity and tone of the important undertaking from which it emanates. Study and practice alone will produce this mastery. It is, of course, essential that there should be no possibility of a grammatical or spelling error in the productions of a secretary.

Specialised Knowledge of Chief Technical Subjects.

First and Foremost—Shorthand.—The equipment in shorthand-writing must be absolutely first-class, combining thorough mastery in writing and reading back. A speed of less than 150 words per minute is not first-class. When writing shorthand legibility should be aimed at, so that third parties can, if necessary, transcribe the notes.

Second.—A mastery of typewriting, and of all modern methods of making duplicate copies. There should be a speed here of not less than 60 words per minute. Secretaries frequently have to work under great strain, and fast typewriting is always an advantage. As regards the machine, there are so many excellent varieties of typewriters nowadays, that so long as an instrument has what is known as the standard keyboard it is unnecessary to recommend any special make.

Third.—Efficient knowledge of methods of filing correspondence. This is very important work.

Elementary Business Knowledge.

My final *general* heading, viz. “elementary business knowledge,” covers a somewhat wide field. Lest the range be thought too wide, I would remind you that an efficient secretary must aim to be an expert in one or two subjects, and to have as broad a general knowledge as it is possible to acquire. One is hardly able to know enough, or to have too many qualifications. What I have called “elementary” information should include:—

(a) A good knowledge of the Post Office guide. Read with a little imagination, this guide can be a fascinating study, for it is a mine of interesting information. Time spent in gaining a knowledge of the “out-of-the-way” services the Post Office renders is repaid over and over again, especially as it is in times of pressure that such information is usually required.

(b) A good knowledge of railway, ocean, and air routes all over the world, with their ports and places of call, not omitting a knowledge of the highways, by-ways, and subways of London.

(c) A knowledge of the principal cable systems, methods of cabling, and codes used in connection therewith, not forgetting a knowledge of the time in the principal cities of the world. There is no advantage in despatching a cable at 3 o'clock in the afternoon at, say, half-a-crown a word which will arrive at its destination at midnight, if by arranging for the cable to be despatched some hours later it will go at half-price, and arrive when the recipient is awake!

(d) An elementary knowledge of foreign systems of coinage and weights and measures and their English equivalents.

(e) An elementary knowledge of bookkeeping.

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(f) An elementary knowledge of banking arrangements—for instance, knowledge of the procedure in regard to such simple matters as the way to draw cheques, to cross cheques, endorsements necessary before paying into banks, pass-books, &c.

(g) An elementary acquaintance with books of reference, such as, for instance, Whitaker's Almanack, Post Office Directory, Who's Who, Directory of Directors, Stock Exchange Year Book, Bradshaw, &c. &c., names of periodicals published for various professions and businesses, such as the Post Magazine, &c., for insurance, Bankers' Magazine, &c., for banking, and so forth. It is very important to know *where* to look for any information that may be required. One or two special publications in connection with the line of business in which the secretary is engaged should be read attentively. Further, a good newspaper, such as *The Times*, should be read, as it gives a comprehensive survey of important happenings in the world, and a student of such a paper cannot fail to be well informed.

It will be obvious that the embryo secretary who possesses the knowledge I have enumerated will have her mind freer to deal with the problems she meets when she enters upon her duties, than a person not so well equipped; and it is equally obvious that, after she has taken up her work, the more knowledge she can assimilate the better the prospect of advancement as the years elapse.

I have now reached the stage at which an aspirant for a secretaryship is ready to enter upon her duties. Upon taking up a position the names and addresses and telephone numbers of the undertaking, together with the same information in regard to the chief officials, should be immediately committed to memory, and as early as possible it should also be noted how the latter sign their names. This is usually a sure intimation of how they like to be addressed.

A copy of Who's Who, the current telephone directory, and the particular book of reference of the profession engaged in (as for instance, with us, the Post Magazine Almanac), should be kept on the secretary's desk, and brought up to date by entries of particulars seen in the press, or learnt otherwise, in connection with people with whom the business has to do. It is very necessary to keep abreast of such current developments in order to avoid hurting the susceptibilities of correspondents by failure to designate them in the correct manner to which they are entitled. For instance, to a greater extent every year it becomes necessary for men, already heavily engaged in important businesses, to become members of committees or associations affecting their particular interests, or to become members of other more or less public bodies, and they may be appointed to the office of chairman or president, and so on. Any such new development should be entered immediately in the book of reference.

The habit of reading names and addresses and telephone numbers "with attention" is a practice that should be cultivated, thus making it simple to train a reliable visual memory for this kind of information. This is not really difficult. Many people spell correctly entirely by this method. A word *looks* right or wrong, as the case may be. Of course, in the first instance, the information must be verified in order to be sure it is correct.

As it is obvious that any advice that is to be useful must include much that has reference to very elementary matters, I will now mention a very simple thing. What I may call the secretary's tools—her pen, pencil, notebook, paper, and typewriter—should always be in perfect condition for instant use. There must be no waiting until the moment arrives to fill the fountain-pen, sharpen the pencil, find the notebook, or clean the type. Further, in business hours the secretary should not stir from her desk without pen or pencil and notebook. It should be her business to be always ready. While on this point I would urge the importance of a secretary's being able to write under adverse or inconvenient conditions. In an emergency she should be able to take notes while standing up, or in a train or

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other moving vehicle. It is on such occasions as these that the first-class mastery of a high shorthand speed is useful. In moments of pressure, if there is no reserve of shorthand speed to fall back upon, mistakes occur at a time when of *all* times there should be no mistakes.

It is very important for a secretary to observe, immediately upon entering her new office, the manner in which the correspondence and all other matters within her purview have been conducted up to that time. It is a reasonable deduction that things have been done in the manner the chief prefers. Therefore, the new secretary will "carry on," until experience shows her where there is opportunity for improving existing methods. It should be remembered that the secretary's duty is to economise the time and energy of the chief by relieving him of as much as possible of what may be termed the drudgery of the day's work. To keep a list of all engagements and see that none are overlooked, to take down dictated notes and return perfectly written letters for signature, to attend efficiently to correspondence entrusted to the secretary to deal with or answer without dictation—all this means a great saving of time to a busy man.

A matter of very great importance is to study the personality of the chief. From the first entry into a position the chief's methods of doing his work, his routine and his individual characteristics, should be closely observed. The very fact that a man requires a secretary pre-supposes him to have more work than he can get through himself. What he cannot accomplish himself is doubly valuable to him if it is done as nearly as possible in his own manner. He is naturally in possession of fuller information in regard to matters he deals with than the secretary can possibly be; yet long explanations cannot be given. Therefore, it is extremely important to gain by observation as much knowledge as possible of how things are done, and of what is required to be done, without "waiting to be told."

To anyone who reflects for a moment it is apparent that the duties of a secretary call for a high degree of interest in the work undertaken. To interest must be added willingness and industry. The work of the secretary is continuously under the chief's notice, and poor work is immediately apparent, because it affects his convenience.

It is necessary for a secretary to be ready frequently to devote time to her work over and above the regular business hours. Each individual chief will follow his own plan of action, and the life of the secretary has to be moulded accordingly.

In conclusion, I will refer to a point of view which has often been pressed on me by girls when discussing the pros and cons of taking up the work of a secretary. There appears to be clamour about the word "secretary." The uninitiated are apt to imagine that the duties are light and easy, and that the majority of the qualifications I have described are really unnecessary to acquire. This is a great mistake. I think it will be agreed that moderate success in one's undertakings is essential to happiness. There is no future in any profession for people content with the minimum of effort, knowledge, and equipment. To be successful there must be a high standard. How else can one be ready to take advantage of opportunity when it comes?

I would recommend any girl in the possession of good health to shun the position that calls for little or no exertion, and that never puts her powers to the test. This is not the way to develop capability; and, after all, if one has to work for one's living, why not be first-rate?

At the close of the paper a discussion took place, to which Mr. Hugh Lewis, Mr. Brown, Mr. Toyne, Mr. Hytch, Miss White, and Miss Milnes, M.A., contributed.

Miss White, in the course of her remarks, mentioned that Miss Wright was the first of her sex to gain Pitman's certificate for 200 words per minute, which feat was accomplished at the remarkably early age of 15.

At the termination of the discussion, a hearty vote of thanks was passed to the lecturer on the motion of Miss Chesshire, seconded by Miss Laws.

National Guild of Accountants' Clerks.

The questions "Is a Whitley Council practicable?" and "Can Accountants' Clerks be graded?" are still in the melting-pot," and meantime the National Guild is making strenuous attempts to prove that the answers are in the affirmative.

The Councils of both the Institute and Society have been requested to receive a deputation of the Guild's representatives to discuss the matter from the clerks' point of view, without which frank discussion the matter cannot have been *fully* considered by the respective Councils.

The replies to our requests were almost identical to the effect "that no useful purpose could be served by receiving such a deputation." Are accountants' clerks a class entirely separate and apart from all other workers? On every hand we have cases of employers being ready and anxious to meet their employees on common ground to discuss terms and conditions of employment, all to their mutual advancement, to say nothing of H.M. Government recommending and adopting "Whitley Councils," whenever possible, in the Civil Service.

In all cases of unrest there must be two points of view: that of the employer, who desires to make as large a profit as possible, and that of the employee, who naturally and justly desires a *reasonable portion* of the profits earned. All thinking men admit that the prevalent industrial unrest, if allowed to continue unsatisfied and unchecked, will inevitably lead to the downfall of the premier position this country has held as a commercial nation, and it should be the desire of all, if possible, to satisfy reasonable demands.

The object of the National Guild is to find that common ground upon which both practising accountants and their clerks can secure mutual satisfaction. Frankly, we ask all readers of *The Accountants' Journal*, Is grading impossible? Every accountant knows the answer, and *The Accountant*, in its leading article dated the 11th September, supports our contention that: "To fix a minimum scale of professional charges, it will be necessary to grade all clerks systematically. This should not be a difficult matter, and we certainly do not agree with those who maintain that accurate classification is impracticable."

A meeting of the National Guild of Accountants' Clerks was held in the Channing Hall, Bradford, on Friday, the 24th September, for the purpose of forming a branch of the Guild in the district. The meeting was well attended, and a number of clerks from Leeds were present.

Being assured by those present that there was a great deal of dissatisfaction in the profession with the present rate of salaries paid, the Assistant Organising Secretary of the Guild, Mr. G. Johnson, B.A., addressed the meeting.

At the outset, he informed them that the Guild was not a trade union, but that it was hoped that by adopting all that was best from the principles of trade unionism to realise the objects for which the Guild was formed, and thereby to materially benefit its members.

He reviewed the general position of the salary question, and pointed out that they were in reality among the worst paid class of the community. As individualism had failed to produce any satisfactory result, it was only

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by means of organising and presenting their case as a united body that anything concrete could be accomplished. The Guild was such an organisation. It had offered the employers an easy way out by suggesting the establishment of a "Whitley Council" for the profession. He stated that the Guild had requested the Council of both the "Institute" and "Society" to receive a deputation of their representatives, and read their replies. These were to the effect that no good purpose would be served by receiving such a deputation.

He then asked, Why do they so resolutely refuse to receive us on this question? The answer was to be found, not in, as they stated, the impossibility of grading, but in the fact that the formation of a Whitley Council would inevitably lead to a revision of the salaries paid, and a subsequent all-round increase. He went on to say that a scale had been drawn up and adopted, and that where it had been outlined to provincial Societies, general approval had been expressed, not only as to its equitable nature, but as forming a basis upon which grading could be built.

Mr. Johnson further warned them that the scale proposed was not such as to put a premium on inefficiency; on the contrary, its base was efficiency, and those who made themselves efficient would be amply repaid for the time and study necessarily entailed. This was in the interests of the employer as much as the employee, and, further, the best brains had some inducement to remain in the profession instead of, as now, to seek advancement outside. He briefly outlined the other objects of the Guild, viz. a roster of appointments, and a contributory pension scheme, and concluded by entreating all, in their own interests, earnestly to consider this matter and decide to join the Guild. The sooner they did this the quicker would the aims of the Guild be achieved.

The Hon. Local Secretary of the Manchester Branch, Mr. T. Croft, followed.

Mr. Croft, after reviewing the general position of clerks with respect to salaries, gave them some idea of the wretched salaries paid in Manchester, and stated, from what he had learned, that affairs were little better in Bradford. So acute had things become in Manchester that a junior was scarcely to be had, and seniors were leaving for better-paid spheres. Employers complained that clerks were inefficient, and if this were so, the employers got what they paid for—the scale proposed by the Guild offered what was needed, viz. fair remuneration for efficient work. He then went on to give an account of his interview with the Manchester Society. He assured them that they were entirely with them in the movement; that they ridiculed the contention of the central bodies that grading was impossible. They all knew that grading was a feature of every office, and he knew at least one firm where the principals themselves were graded. He concluded with a strong appeal to them to join, and thus effect a change in conditions.

In a few choice words, Mr. Pickles, a late member of the Manchester Committee, emphasised the need for organisation, and exhorted all present to show themselves true Yorkshiremen by forming such a branch in Bradford as would cause Manchester to look to its laurels!

After remarks by others present a resolution was unanimously passed, "That it is in the best interests of clerks in the district to form a branch of the Guild."

A Committee and Local Honorary Secretary were appointed, and they undertook to organise a mass meeting of accountants' clerks to be held at an early date.

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Municipal Finance.—I.

By J. H. McCall, F.S.A.A.

The subject of Municipal Finance is of particular interest at the present time, and owing to the numerous Statutes and Regulations which govern the operations of local authorities it is one which presents many complexities to puzzle the student. The following article is the first of a series by Mr. J. H. McCall, the Borough Accountant of Croydon, in which he gives a clear exposition of the problems involved in Municipal Finance.

Introduction.

“Municipal Finance” may be defined as the system of managing the finances of a local authority. The expression is often erroneously used in a wider sense to include the law relating to finance, systems of accountancy, and even the principles of rating. In order to attempt a plain statement of what is involved in the problem relating to municipal finance, it will be necessary to exclude such extraneous matter, and limit oneself to the consideration of the ways and means of keeping a local authority in funds from year to year.

Even if the subject is confined within the limits of the definition given, it will be found sufficiently complex to interest the most thoughtful student. Much consideration has been latterly directed to a study of the various problems involved, owing, no doubt, to the close relationship existing between local and national finance. The increased duties and responsibilities thrown upon the local authorities, in order that the reconstruction schemes of the Government may be put into execution, have created financial difficulties, the solution of which will not be easy. The operations of a local authority are governed by numerous statutes, and regulated by countless orders which emanate without ceasing from the Government departments concerned. Although at first sight it may appear to the student that the subject is dull and lacking in interest, yet this is far from being so, as I shall endeavour to prove in this and succeeding articles. There is, however, one danger the student must endeavour to evade—that of being so buried in the study of detail as to lose his sense of perspective.

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Factors affecting Municipal Finance.

If we bear in mind the main question of ways and means, the subject will naturally lend itself to a discussion of the main factors which materially affect the finances of a local authority. These may be classified as follows:—

(a) Local Control.

A local authority acts upon the reports of committees to whom are delegated the management of certain specified services; these are known as the Spending Committees. It is the duty of the Finance Committee to devise ways and means for finding the funds where-with these committees may be enabled to carry out, through their Executive Departments, the duties devolving upon them. This committee generally acts upon the advice of the officers of the Corporation, and sometimes has the benefit of the exceptional financial experiences of members who may be possessed thereof. Generally, however, the principles of economy do not receive much more acknowledgment than occasional loud complaints at extravagance, without any effective suggestions by way of real remedy. This committee must make recommendations to the Council as to the rates to be levied or sums to be borrowed. The Council of the Corporation receives, at its regular meetings, the reports of its committees, and may adopt, revise, or reject the recommendations made. The most important feature, however, is the power of the Council to suddenly promote schemes which require financing, or to depart from the programme of expenditure for which a limited rate was made.

(b) Government Control.

A very important factor to be remembered is the relationship which necessarily exists between the Government and the local authorities. Other than maintain the national defences, the Post Office and telephones, Parliament does little more for the nation than make its laws. Political schemes for the reform of society are placed upon the statute book, but the duty of carrying these into effect devolves upon the local authorities. For this purpose the latter become the agents of the Government, a relationship which has been accentuated since the war. The working out of the great national reconstruction schemes dealing with housing, education, and child welfare is placed as an obligation upon the local authorities, creating as a result financing difficulties which require the active co-operation of the Treasury.

If we review the history of Local Government it is not easy to ascertain why the Government has always exercised some financial control. Perhaps there was that parental feeling at first that the child of its creation could not be trusted to do the right things, or that the rate-payers' representatives lacked the necessary financial capacity. However, that is conjecture, but it is fairly safe to state that the reins of control have been tightened owing, no doubt, to the development of bureaucracy at headquarters. It will be shown later how far this bureaucratic control is beneficial or otherwise, and it will be sufficient to briefly outline the machinery by which it works.

First, Control through Legislation.

The local authorities derive their powers from statutes, and our legislators have taken full advantage of this fact, and as a result the Act

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granting powers always contains certain restrictions and obligations. The fulfilment of the duties is always accompanied by restrictions which in some cases have defeated the object of the statute. It cannot be said that the regulations made by the various departments of the Government have helped to make the work of financing a corporation an easier problem.

Secondly, Control by Regulations.

The best illustration of this is the regulation in respect of borrowing powers. The sanction of the Ministry of Health or other Government Department must be obtained before the money can be borrowed in respect of expenditure upon what is called capital or permanent works. Where loans are required for sanitary purposes under the Public Health and Allied Acts, and the loan indebtedness of the local authority exceeds one year's assessable value, a public inquiry must be held as to the necessity for the work, its estimated cost, &c., and to hear objections from persons interested. If the Inspector is satisfied that everything is in order he reports to his department, and a formal sanction is given to borrow the necessary money. Usually the inquiries are purely formal, but it is obvious that it is quite within the power of an Inspector to veto the considered judgment of a local authority acting upon expert advice. It was possible for the Ministry to stop all proposed new works during the war by merely withholding sanctions, which is a very good illustration of the power of control which can be exercised through the medium of statutory regulations.

Thirdly, Control by Audit.

In the case of all local authorities excepting, generally speaking, county boroughs and non-county boroughs—and even these, so far as relates to education and certain other accounts, e.g. assisted housing schemes, food control—the accounts are subject to audit by a district auditor appointed by the Ministry of Health.

The principal purposes of the audit—in addition to those usually ascribed thereto—are:—

1. In Relation to Revenue Expenditure.

- (a) To ascertain that rate limits (if any) have not been exceeded.
- (b) To verify the fact that the expenditure incurred is not *ultra vires*, i.e. is not outside the powers of the particular local authority concerned.
- (c) To satisfy statutory requirements in so far as relates to the fact that certain expenditure can only legally be defrayed out of certain rates.
- (d) To ascertain that due and proper provision has been made for the redemption of debt created.

2. In Relation to Capital Expenditure.

- (a) To ascertain that Government sanctions are in hand before loans are raised for a specific purpose.
- (b) To ascertain that capital is not appropriated to any particular work in excess of the amount sanctioned.

The auditor has power to surcharge illegal expenditure, and the knowledge of this power has a certain amount of influence upon the Finance Committee. It must, however, be taken into consideration in relation to finance that the auditor will see that the cumbersome legal formalities, such as mortgage deeds for loans, &c., are complied with.

Fourthly, by means of Government Returns.

This again can be sub-divided into:—

- (a) Ordinary returns of income and expenditure, e.g. Epitome of Accounts (which, by the way, the Ministry of Health suggest may probably, in the future, take the place of the "A & B" Return.
- (b) Abstract of Loans Statement—relative to Stock Redemption Funds.
- (c) Returns required in cases where the Treasury make a grant towards expenditure, e.g. venereal diseases, maternity, and child welfare.

(c) Financial co-operation with the Government.

The method of assisting local authorities to carry out their obligations by Treasury grants in aid of local taxation is becoming more important of late years. Definite grants based upon a proportion of the expenditure of certain services are made with the object of assisting the local authorities to carry on in respect of those specific services. The method of paying the grants has an important bearing upon the finances. Locally, the argument that the Government will pay half the cost is often used as a justification for certain expenditure, and as such is destructive to some of the elementary ideas of wise economy.

(d) Fluctuations of Expenditure and Income.

Perhaps the most important factor to be taken into consideration is the incidence of expenditure and the flow of income out of which it is met. In the first place there is expenditure which is spread evenly over the year, relating to the public services chargeable to the Rating Funds, and the revenue expenditure of the trading undertakings. The former is provided for by rates levied upon the inhabitants, on an estimate of the probable expenditure. It will be seen that until the rate is collected the regular services must be financed in some way. This difficulty exists also in relation to the trading undertakings, which have practically to be financed to the extent of one quarter's expenditure. An exception to this is the tramways undertaking, which is essentially a cash business, the receipts coming in every day regularly.

There is expenditure out of loans which it is very difficult to estimate for. It may be the practice to start the works when the necessary sanction has been obtained, and resort to temporary expedients for financing until a permanent loan is negotiated. Under this heading arises the question of ways and means in respect of the housing schemes, and it will be shown what has been and is being done to cope with what is admitted a national difficulty.

As the powers of the different classes of local authorities vary, it will be helpful in covering the ground to select the most complete and independent unit, viz. the County Borough. Its powers include all those of the small authorities, and for the purpose of illustration we will assume that it possesses the usual trading undertakings. We must, in discussing ways and means, always bear in mind local influences and policy; the relationship which exists between the local authority and the legislature, and the departmental regulations to be observed. These all have a direct bearing upon the question of finances quite apart from what is involved in actually meeting bills as they fall due. It may be necessary to add a word of criticism when reviewing some of the expedients resorted to, and this may help to emphasise the facts concerning ways and means of municipal finance.

A Company Secretary's Duties—VII.

By W. H. Fox.

Mr. Fox deals this month with the duties of a Secretary in relation to Notices by Advertisement, Stamp Duties, and Stock Exchange Requirements.

Notices by Advertisement.—There is only one specific provision in the Act of 1908 as to Secretarial notices in connection with the conduct of the Secretary's duties, and that is contained in Section 31. This provides that a company, on giving notice by advertisement in some newspaper circulated in the district in which the registered office of the company is situate, may close the Register of Members for any time or times not exceeding, in the whole, 30 days in each year.

This provision is meant to facilitate the preparation of the list of members for dividend purposes, and is scarcely necessary in the case of small companies where the registers can be balanced without any delay. Thus no inconvenience need be caused to the company's officials or to would-be sellers of Shares or Debentures who might have their transfers held up for a possible period of one month.

Where, however, a very long list of shareholders has to be prepared for dividend or other purposes, it is certainly a convenience to the Secretary's department if the reception of transfer deeds for registration can be declined until the expiration of the period advertised. One may assume that for a London company any London daily newspaper, either financial or otherwise, may be used for the purpose of the advertisement closing the Register of Members, and as regards the form, a very short notice to the effect that the register is closed for a period of, say, fifteen days from the date of the advertisement would be sufficient compliance with the Act.

There are, however, various notices which arise out of certain provisions in the Articles of Association (where Table A is adopted, or where special articles are filed) as, for instance, in connection with the conditions under which Share Warrants to Bearer may have been issued. In this case notice of the amounts and dates of payment of dividends declared must be publicly advertised, so that the holders of the Warrants to Bearer may have the opportunity of presenting the coupons attached to the warrants for payment. The Share Warrants representing ordinary shares cannot have attached to them coupons representing a fixed amount of dividend, and the advertisement would, therefore, also contain a note of the rate of dividend declared, and whether it is free of income-tax or not.

Further, in the case of a new issue of shares being allotted *pro rata* to existing shareholders, the necessary proportion must be reserved for distribution amongst the holders of Share Warrants to Bearer, and the terms of the issue of the new shares must be advertised. The drawing of bonds and payment off of the same will doubtless have to be advertised in accordance with the terms of the issue.

It will also probably be necessary to advertise the change of any new conditions in Bearer Shares or Debentures which may have been passed

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by meetings of debenture-holders or shareholders, at which such alterations may be approved, and this also would apply in the case of the renewal of debentures.

There will occasionally be notices not covered by the Articles of Association as to such matters as the removal of offices or as to Bearer Warrants being lost, and subsidiary matters of such a nature, but it is scarcely necessary to provide a special form for these, as they will be regulated by the nature and intention of the notice which is being conveyed to the public.

On the other hand, an official notice will probably have to be inserted in the *Gazette* when share capital has been reduced by order of the Court, or advertised in such other paper as may be directed by the Judge.

The compounding of stamp duties in accordance with the terms of the Act may also be advertised.

Stamp Duties.—Under the terms of the Finance Act, dated the 4th August 1920, various rates of stamp duties have been altered, and the Secretary must be on his guard in connection with the new conditions which are now in force.

The alterations are principally under the following heads:—

(1) *Share Capital Duty.*—It may be observed that the alterations in the Finance Act of 1920 came into operation on the 1st September 1920, with the exception of the increased share capital duty, which is stated to be effective from the 20th April of the same year.

It may here be mentioned that any companies registered between the 20th April 1920, when the Chancellor of the Exchequer made his Budget speech, and the passing of the Finance Act, or any company which has increased its capital between these two dates, receives a demand from the Inland Revenue authorities for the payment of the increased capital duty of 15s. per cent., representing the difference between the 20s. per cent. now charged on capital, and the 5s. per cent. payable previous to the present Finance Act. There seems to be some question whether the claim of the Revenue authorities for this increased duty is legally payable, especially in view of the fact that all the other duties, the rates of which have been increased under the Act, are not claimed for by the authorities. There would appear to be no justification for this special treatment, and companies will be advised to resist what seems to the writer to be a purely unconstitutional claim.

(2) *Loan Capital.*—The payment of 2s. 6d. per £100 or fractional part of £100 of any amount proposed to be issued by way of loan is chargeable as duty, but the authorities do not claim this if stamp duty in respect of a mortgage or marketable security has been paid on any trust deed or other similar document.

Where a duly stamped statement has been delivered by a company in respect of loan capital applied for the purpose of conversion of existing loan capital, 2s. per £100 may be claimed as a repayment. The term "loan capital" before-mentioned, is not intended to apply to bank overdrafts or other loans raised for merely temporary purposes for a period not exceeding twelve months.

(3) *Letters of Allotment, &c.*—The stamp on Letters of Allotment or Letters of Renunciation remains at the same rate, namely, 1d. where the nominal amount of capital allotted is less than £5, and 6d. on any amounts allotted above £5. These duties must be denoted by an impressed stamp, except in the case of stamps on letters of renunciation,

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for which an adhesive stamp may be used, the shareholder's name being signed over the stamp.

Script certificates or other similar documents on which 1d. was formerly charged now bear a duty of 2d., being at the same rate as the new duty on cheques. Receipt stamps for amounts of money acknowledged amounting to £2 or upwards are now 2d. instead of 1d.

(4) *Bonds and Debentures*.—Registered bonds and debentures, and other securities transferable only by transfer deed, are chargeable for stamp duty as follows:—Where the nominal amount secured does not exceed £10, the duty is 3d. Amounts up to £25, 8d.; from £25 to £50, 1s. 3d.; and 1s. 3d. per cent. on advances of £50 each up to £300, when 7s. 6d. is payable. Above £300 the duty is 2s. 6d. per cent. for every £100 nominal value. If the registered security is given in substitution for a similar security duly stamped, a duty of 6d. is charged for every £100 or fractional part of £100 on the amount secured, with a maximum duty of 10s.

Bonds, debentures, and other similar securities payable to bearer and which are not transferable by instrument of transfer carry a rate of 4s. upon every £10 or upon any fractional part of £10. In the case of a debenture security to bearer being given in substitution for a similar security duly stamped, duty is payable on the substituted bearer security at the rate of 2s. for every £20 or fraction of £20.

When a security to bearer is issued in lieu of a registered security transferable only by transfer deed, the substituted security is chargeable with a duty of 4s. for every £10 or any fraction thereof.

If the bond definitely secures the payment of, say, £100, with a premium of, say, £5 (or, indeed, any other amount), the total amount must be the figure upon which the stamp is calculated; but if the premium is only conditionally payable in consequence of some voluntary act of the company, then the net amount of £100 would be the sum upon which the duty would be calculated. Where debentures are re-issued under the provisions of Section 104 of the Companies (Consolidation) Act, 1908, either by the re-issue of the same debentures or by the issue of other debentures in their place, such re-issued debentures will be treated as new securities for the purpose of stamp duty, and the full *ad valorem* duty is payable thereon.

(5) *Short Term Marketable Securities to Bearer*.—The duty on marketable securities to bearer is 6d. for every £10 or part thereof if the security is to be paid off within one year, and 1s. for every £10 if payment off is to be made in a period not exceeding three years from the date on which the duty is payable. Transfer or negotiation of any such security after the due date involves a penalty.

(6) *Instruments of Transfer*.—Transfers on sale of any stock, shares, or marketable security of any kind are chargeable as follows:—Where the consideration does not exceed £5, 1s.; with advances of 1s. for each £5 up to the sum of £25. Over £25 up to £300 the duty on each £25 advance is 5s., namely, at the rate of 1 per cent. After the total consideration of £300 is reached a 10s. duty is payable for every £50 or any fractional part of £50.

It may be mentioned that a transfer deed made in liquidation of a debt or in exchange for other securities has to be stamped with the *ad valorem* duty.

(7) *Share Warrants to Bearer*.—All share warrants of a company established in the United Kingdom must bear an impressed stamp of

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an amount equal to three times the *ad valorem* duty chargeable on a transfer, calculated on the nominal amount of the shares covered by the share warrant.

(8) *Powers of Attorney, &c.*—A letter or power of attorney or other instrument of the nature thereof is ordinarily chargeable with the stamp duty of 10s., but in the case of a proxy for voting at one meeting or any adjournment thereof, 1d. only is payable. An authority for receipt of dividends or interest on any stock, where made for receipt of one payment only, is stamped with a 1s. stamp, and in any other case connected with the receipt of dividends, a 5s. stamp is necessary.

(9) *Agreements Under Seal* of a company, not otherwise chargeable with stamp duty, carry a 10s. stamp.

The foregoing stamp duties are covered by the Finance Act dated the 4th August, 1920 (10 & 11 Geo. 5, chap. 18), and a memorandum has been issued by the Inland Revenue Authorities at Somerset House, giving a summary of the stamp duties. In this document the authorities endeavour to make the officers of companies responsible for accepting or dealing with documents insufficiently stamped, but these alleged liabilities are, perhaps, more existent in the official mind than is warranted by the actual legal position occupied by the Company Secretary.

Stock Exchange Quotation.—Since the beginning of the war the conditions as to dealing in a company's shares on the Stock Exchange have been altered, and instead of a company first having to obtain a "special settlement" before the shares could be dealt in (with a view to subsequently obtaining a quotation in the official Stock Exchange list), application has to be made to the committee "for leave to deal" in the shares. The following are the Stock Exchange requirements at present in operation:—

1. A statement that the company has been duly incorporated, and the date.
2. Copy resolution authorising issue.
3. Copy of agreement relating to issue of shares credited as fully paid and of any other contracts mentioned in prospectus.
4. If shares issued for cash, copy of prospectus or circular under which they will be issued. If the prospectus was publicly advertised, copy of the advertisement.
5. If issued *pro rata* to existing shareholders, undertaking to split letters of renunciation.
6. Specimen (or advance proof) of allotment letter, and, if possible, of definitive certificates. [In order to facilitate the certification of transfers it is suggested that the allotment letters should contain the distinctive numbers of the shares to which they relate.]
7. Letter, giving numbers of shares, stating whether or not they are identical in all respects with existing shares and undertaking to issue all the allotment letters simultaneously, and to certify transfers against allotment letters.
8. Approximate date when definitive certificates will be ready for issue.
9. If the issue will be underwritten, copy of proposed underwriting agreement, and of sub-underwriting letter, if any.
10. In case of a debenture issue, copy of trust deed.
11. A statement that shares are in all respects identical is understood to mean that:

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(1) They are of the same nominal value, and that the same amount per share has been called up.

(2) They carry the same rights as to unrestricted transfer, attendance, and voting at meetings, and in all other respects.

(3) They are entitled to dividend at the same rate, and for the same period, so that at the next ensuing distribution the dividend payable on each share will amount to *exactly the same sum*.

London Stock Exchange Rules.—In pre-war days, application was made in the first place as above-mentioned for a special settlement in a company's shares, and a date was fixed by the Stock Exchange Committee when all contracts for buying and selling shares in the new company had to be completed. The following documents and particulars had to be sent to the Secretary of the Share and Loan Department when application was made for a "special settlement."

(a) *Scrip or Bonds of New Loans.*—(1) A specimen of the scrip or bond, (2) a copy of the prospectus, circular, or advertisement relating to the issue, (3) a statutory declaration stating the amount allotted, to the public and to others; the distinctive numbers and denomination of each class of scrip or bond; the amount paid up thereon; and that the scrip or bonds are ready to be delivered.

(b) *Shares of New Companies.*—(1) The certificate of incorporation. (2) A specimen of the share certificate. (3) A copy of the prospectus, circular or advertisement relating to the issue. (4) A specimen call letter. (5) Certified printed copies of contracts relating to the issue of shares credited as fully or partly paid. (6) A letter from the Secretary of the company, stating—

(a) That the share certificates are ready to be issued.

(b) The distinctive numbers of the shares allotted to the public, and to the vendors.

(c) The particulars of the company's capital.

(d) The nominal amount of each share, and the amount paid in cash or credited as paid on each share.

(e) In cases where the whole of the capital has not been issued at the time the application is made, whether the unissued shares are vendors' shares or are held in reserve for future issue.

Stock or Debenture Stock of New Companies.—(1) A specimen of the Scrip or Stock Certificate. (2) A copy of the prospectus, circular, or advertisement relating to the issue. (3) A letter from the Secretary of the company, stating—

(a) The amount allotted to the public and to others.

(b) The amount paid in cash per £100 stock.

(c) That the scrip or stock is ready to be issued.

The above documents and information having been supplied to the Stock Exchange Committee, and having proved to their satisfaction, the next step was to obtain an official quotation for the shares, and in the first place a statutory declaration under the Act of 1835 made by the Chairman and the Secretary of the company had to be prepared and submitted to the Stock Exchange Committee.

This declaration should contain the following information :—(1), that the prospectus complies with the provisions of the Companies Acts; (2),

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that all requisite documents were filed with the Registrar of Joint Stock Companies; (3), a statement as to the number of shares of each class which have been applied for by the public; (4), a statement as to the number of different classes of shares allotted unconditionally to the public; (5), a statement as to the number of fully paid shares allotted to the vendor; (6), the amount realised from the deposit and allotment moneys and calls and the amount of the balance due to the vendor, with a note of the balance left available for working capital; (7), that the share certificates are ready for delivery, and that the purchase moneys have been paid; (8), a statement of the number of allottees in response to the issue of the prospectus, with a note of the largest single application and the largest number of shares allotted.

The London Stock Exchange rules can be obtained by the Secretary from the Share and Loan Department of the Stock Exchange, and as they are too voluminous for inclusion in the present short article, the following summary of their contents is supplied.

(a) Conditions precedent to the application for official quotation.

(b) Articles of Association should contain certain provisions.

(c) Trust Deed and certain provisions as to the repayment of the securities, &c.

(d) Conditions as to Stock and Share Certificates, and information which should appear on the face of them.

(e) Conditions to be stated on bond issue.

(f) New companies must supply a copy of the prospectus, two copies of the articles, and a copy of the Debenture Trust Deed.

(g) In the case of shares, the certificate of incorporation of the company and the certificate that the company is entitled to commence business, with copies of the prospectus and other relative documents to be supplied, and a statutory declaration by the Chairman and Secretary on the lines above indicated.

(h) Debentures and Debenture Stock; certificate of incorporation, copies of the articles to be supplied, and a statutory declaration on the lines above indicated.

(i) *Scrip*.—Specimen of the Provisional Scrip Certificate must be supplied.

(k) Further issues. Copies of the Act of Parliament authorising the resolution, &c. and other relative documents as to the new issue, with particulars of amounts paid in cash per share, &c., and that the stock is in all respects identical with previous issues.

(l) *Vendors' Shares*.—A certified list of the present holders of vendors' shares, specimen share certificate and statutory declaration by the Secretary as to the issue of vendors' shares, and that they are in all respects identical with those already quoted on the official list.

(m) Old companies must supply a certificate of incorporation and documents similar to those previously specified, together with statutory declaration by the Chairman and Secretary as to compliance with the Companies Acts, &c.

(n) *Colonial and Foreign Companies*.—The Act of Parliament, certificate of incorporation, or other similar documents to be supplied, and certified list of present shareholders, specimen share certificate, and copy of last published report.

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(o) *Reconstructed Companies.*—The certificate of incorporation, and the certificate that the company is entitled to commence business, together with plan of reconstruction and certified copies of all resolutions and circulars issued, together with allotment letters, &c., duly certified, must be supplied.

(p) *Loans.*—Details of the creation of the loans and the authority under which they are issued, including authenticated copies of concessions, &c., with translations, and certified copies of prospectus and specimen bond, and also statutory declaration by the agents for the issue, must be supplied.

(q) *Bonds Quoted Abroad.*—Official evidence of quotation in the country of origin, copies of prospectus, specimen bond and official certificate, setting forth the authorised and issued amounts of the loan, &c., must be supplied before the Committee will consider the official quotation of the Bonds.

This brings to an end the summary of the pre-war Stock Exchange regulations, which it is understood are likely to again come into force before long.

The remaining article, No. VIII, will be completed in the January number of the *Journal*, and will relate entirely to voluntary liquidation and reconstruction, in so far as the Secretary may be concerned with these operations.

The Prize Essay Competition.

We wish again to urge our readers to enter for the monthly competitions; the research necessary in order to write an essay is invaluable to any student, and is calculated to impress the subject on his mind to a far greater extent than merely reading a text-book. The subjects selected are always chosen with a view to possible examination questions, and any competitor who has carefully and earnestly studied his subjects will undoubtedly feel a greater sense of security when entering the examination room.

A number of excellent essays were submitted on "Bills of Exchange," and we are confident that every competitor has greatly benefited by his efforts, even though he has not succeeded in winning a prize.

We congratulate the winner, and at the same time express the hope that the unsuccessful competitors will try again.

In the Final Division the prize of £2 2s. in books goes to Mr. Nevil Percy Truman, 20 Waterloo Road, Nottingham, for an excellent essay on "Cheques and Bills of Exchange." Mr. T. S. Bustard, of Bedford Park, also sent in a very good essay, which deserves honourable mention. The papers by "E. Jai" and "Quantum Sufficit" are both good and practical. In the Intermediate Division the prize of £1 1s. in books is awarded to Mr. Gilbert Taylor, 27 Wellington Road, Lancaster, for a good paper. It would seem from "Lavengro's" essay that he has been reading an out-of-date book written before the 1913 Bankruptcy Act was passed.

The subjects for December competitions are:—

Intermediate.—The best essay on the Liabilities of Auditors generally.

Final.—The best essay on the Duties of a Trustee under a Deed of Arrangement.

The Fundamentals of Accountancy.—VIII.

By Lawrence R. Dicksee, M.Com., F.C.A.

(Sir Ernest Cassel Professor of Accountancy and Business Methods in the University of London).

This month Professor Dicksee devotes his article to a discussion of the various methods of providing for Depreciation. Each method is fully described and the advantages and disadvantages explained.

XXX.—Depreciation.

For purposes of accounting, Depreciation is the term applied to the gradual and inevitable wastage that occurs in connection with Fixed Assets, arising from either natural or human laws, as a result of which such Fixed Assets will not for ever continue to serve their original purpose as profit-earners.

Practically all material objects suffer Depreciation from wear and tear and from the effects of climate; but, apart from that, in certain cases the right to enjoy the assets acquired is limited to a definite term by the operation of the law, as in the case of leaseholds, patents, copyrights, &c. Whether natural or human laws be the determining factor in the matter, it inevitably follows that at the expiration of a certain period (known or unknown, as the case may be) all the advantages that are ever going to be derived from the use of the assets in question will have been received. Accordingly, if it is desired that such advantages should thereafter continue, further expenditure upon the acquisition of new assets then becomes necessary.

XXXI.—Effect of Ignoring Depreciation.

If no allowance be made for Depreciation during the time that a wasting asset is in use, it follows that, when the time arrives for the worn out asset to be replaced by a new one, the cost of replacement must be provided for either by (a) raising further Capital for the purpose, or (b) charging it against current profits. The former is clearly unsound, in that its tendency is steadily to increase the Capital required to carry on the business of the undertaking, without providing any corresponding increase in its earning capacity; the percentage of profits to Capital accordingly tends steadily to diminish, with the result that it becomes increasingly difficult and ultimately impossible to secure any further Capital at all. This method accordingly provides no permanent solution of the problem. The second alternative is only practicable where (as stated in paragraph XXIX) the equipment consists of such an enormous number of items that it may reasonably be expected that the amount of useful expenditure upon renewals in any one year is not likely to very greatly exceed the average wastage in any one year, as, otherwise, the gross earnings of the year might very well be wholly insufficient to cover the current working expenses, and to provide for the cost of renewals. Moreover, this somewhat haphazard method of dealing with the problem is open to the further objection that the charges actually debited to Revenue year by year will not accurately represent the actual cost of

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producing such Revenue. Accounts so framed may accordingly be seriously misleading to those charged with the management of the undertaking. Accordingly, it is now generally recognised that the proper course is from the very first to make provision for Depreciation by charging against profits year by year a sum at all events approximately equal to the actual Depreciation that has taken place in each such year.

XXXII.—Factors Involved in Computing Depreciation.

For the purpose of calculating the proper provision for Depreciation in respect of one year (or any other shorter period) it is necessary to know (a) the cost of the wasting asset, (b) its ultimate residual value (this will very likely be negligible, and may even be a minus quantity), (c) the effective working life of the asset. Clearly (a) minus (b) is the proper charge against Revenue in respect of the period represented by (c).

No difficulty arises in determining (a). If (b) is sufficiently important to be worth taking into consideration at all, it can certainly be estimated with a close approximation to accuracy in terms of (a). Thus, supposing (as is very likely the case) (b) may be anything between 2 per cent. and 5 per cent. of (a), although there is a marked difference between these two extremes expressed in terms of (b), the difference is negligible as expressed in terms of (a), or of (a) minus (b).

No difficulty arises in determining the length of the legal life of an asset where it is subject to the operation of human law; and where the legal life is shorter than the natural life, it is the legal life that has to be considered for practical purposes. But where only the natural term of life has to be considered, as in the case of most plant and machinery, no certainty is possible. Those who seek to avoid making proper provision for Depreciation sometimes take advantage of this uncertainty to argue that as it is impossible to calculate Depreciation year by year with absolute exactness, it is useless to make any attempt to provide for it at all. This is much the same thing as the saying that it is always useless to make estimates, because in the nature of things an estimate may turn out to be incorrect. Yet without the making of estimates, business would be impossible. The prudent business man never incurs Capital Expenditure without first satisfying himself that the results are going to be worth the outlay. In almost every case a possible alternative to Capital Expenditure (i.e. the purchase of Fixed Assets) is to hire what is required for a fixed periodical payment. Accordingly, when a decision is reached to incur Capital Expenditure, it is only reasonable to assume that this course has been adopted, because it is deemed to be more economical than hiring; but, naturally, this conclusion cannot be reached without first forming an estimate of the working life of the assets that it is proposed to acquire.

In the vast majority of cases no difficulty arises in practice in arriving, as a result of past experience, at a very accurate estimate of the average working life of every conceivable unit of equipment, but the average working life will, of course, not be the same as the working life of each separate item. Upon the average, however, it will be (or should be) sufficiently near for practical purposes. However that may be, the determination of the working life is not a question of accounts at all, but a question for the practical man—the engineer, the architect, and the like. The accountant is only concerned with the best method of providing for Depreciation after he has been supplied with the three factors (a), (b), and (c) enumerated above.

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XXXIII.—The "Straight Line" Method.

The Straight Line, or Equal Instalment, method of providing for Depreciation aims at spreading the loss equally over the period of the working life. Accordingly, if the estimated working life be (say) ten years, a sum equal to one-tenth of the original cost (minus the residual value, if worth considering) is charged against the profits of each year. In the case of assets acquired during a year, it is usually considered satisfactory to charge half-a-year's Depreciation against that year's profits, upon the assumption that, on the average, new equipment will be purchased when the financial year has half expired.

The provision for Depreciation thus determined is debited to the current Profit and Loss Account, and may be either credited to the account of the wasting asset, or to a separate account called "Reserve for Depreciation Account." The latter is perhaps the better arrangement, as there is then never any difficulty in determining the total original cost of equipment, which is, of course, required for the purpose of determining the annual provision for Depreciation. When from time to time fixed assets are discarded, Reserve for Depreciation Account will be debited, and the account of the asset credited with the original cost of the asset so discarded, while the cost of the new asset acquired in its place will be debited to the Asset Account. The matter presents no difficulty in practice where a separate Ledger Account is opened in respect of each asset, but where, as is very often the case, a number of different items are included in the same Ledger Account, it is important that steps should be taken from time to time to make sure that the debit balance on such account is reasonably represented by the current value of assets then in existence.

The effect of making provision for Depreciation as above is (a) gradually to write down the value of fixed assets as their working life expires, (b) to reduce the balance of net profits shown by the Profit and Loss Account, thus reducing the amount actually dealt with as profit (*vide* Par. XLIV); but nothing that has so far been done affects the finances of the undertaking, save in so far as less money is distributed as profits by reason of the fact that Depreciation has been provided for. Thus it follows that one of the effects of making provision for Depreciation in accounts is to withhold from distribution moneys that would otherwise be regarded as available for distribution as profits, and these moneys remain with the undertaking, and tend to accumulate year by year as the periodical charges against profits accumulate. Unless otherwise dealt with, these sums will accordingly tend to inflate the balance at the bank, so that at the end of the working life there will be at the bank a sum of money which otherwise would not have been there, equal to the original cost of the asset minus its residual value, assuming the working life comes out according to expectation. When the residual value is realised, there is accordingly at the bank a sum of money equal to the original cost of the worn-out asset available for the purchase of another to take its place.

XXXIV.—Fixed Percentage Method.

In some cases it is clearly inequitable to charge a uniform sum against the profits of each year for Depreciation, because it is evident that the benefits to be derived from the use of the wasting asset are not equally distributed, but are to a far greater extent enjoyed in the earlier years when the asset is comparatively new. When this is the case, an

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alternative method of providing for Depreciation, which is frequently adopted, is to credit the periodical charge for Depreciation to the account of the asset, thus reducing the debit balance on the Ledger Account year by year, and to calculate the provision for Depreciation as a constant percentage upon the Ledger Balance, which itself is, of course, gradually diminishing. The effect of this arrangement is, of course, to charge a diminishing sum against profits year by year, the maximum charge being in the first year, and the minimum charge in the last year. It is important to bear in mind that where this method is adopted the amount charged in the first year, which determines the percentage, must be very considerably higher than would have been necessary under the Straight Line method. Many practical men, however, take the view that the charge from year to year computed upon this plan approximates very closely to the diminishing efficiency of plant and machinery, and that accordingly this method is particularly suitable for providing for Depreciation on such wasting assets.

Here, as in the preceding case, the practical effect of providing for Depreciation is to accumulate moneys in hand which will hereafter be available to meet the cost of renewals.

XXXV.—The Annuity System.

If the Straight Line method of providing for Depreciation has been adopted, and year by year a sum equal to the amount charged against profits has been employed in purchasing investments the income on which was re-invested, so that the moneys so set aside might accumulate as compound interest, it is obvious that, in order to provide a given sum at the end of a specified period, a smaller sum would suffice than that required if the amounts charged against profits were not so invested at compound interest. It is accordingly arguable that the maximum charge against profits ought not to exceed in the first year the charge that would have been necessary had the amount charged against profits for that year been invested at the end of the year. Arising out of these considerations we get a third method of providing for Depreciation, which is usually called the Annuity method. Under this system, the amount charged against profits at the end of the first year is the annual amount which, if accumulated at compound interest, would suffice to provide the required sum at the end of the working life. At the end of the second year the charge against profits is the same amount as before, plus the amount lost by the non-investment of the previous instalment. At the end of the third year, the amount to be charged against profits is again the same as at the end of the first year, plus a sum equal to the amount of interest lost through the non-investment of the previous instalments, and of the interest that would have then been earned thereon. Viewed superficially, the Annuity method of providing for Depreciation seems to throw a steadily increasing burden upon the profits of successive years; but, against this, it must be borne in mind that the moneys that have not been invested are available as additional Working Capital in the business, and so employed are presumably earning profits in excess of the interest that they might have earned if invested elsewhere. Upon no other assumption can their non-investment be justified. It is accordingly quite reasonable to suppose that the Annuity method really spreads the burden of Depreciation more equally over the period of the working life than the Straight Line method.

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XXXVI.—The Sinking Fund Method.

The Sinking Fund method differs from the preceding only in that the amount charged against profits at the end of the first year is actually invested outside the business, with the result that at the end of the second year it is unnecessary to charge more against profits than in the preceding year. The charge against profits for Depreciation is accordingly throughout the whole term of the working life equal to the charge against the first year under the Annuity method; but the interest received upon the moneys so invested is re-invested so as to secure the benefit of compound interest, and thus (assuming the investments can be realised at cost price, and assuming that they have earned the anticipated rate of interest throughout the working life) when the time for renewal arrives, it is possible to sell the investments for a sum equal to that for which provision has been made. By selecting investments that are redeemable at, or near, the expected date of renewal, fluctuations in investment values may be reduced to a minimum.

XXXVII.—The Revaluation Method.

An alternative method sometimes employed in practice is to re-value wasting assets year by year, write down the Ledger balance accordingly, and to charge the amount so written off as the Depreciation for the year. In the nature of things this method does not provide for the equitable spreading of the total loss over the period of the working life; but in the case of such assets as the linen, plate, cutlery, glass, crockery, &c., of an hotel, or the loose tools of a factory, it is probably more satisfactory because safer than any of the methods previously described.

Work for Ex-Officers.

An agreement has now been reached between the Appointments Department of the Ministry of Labour and the Officers' Association to prevent overlapping, according to the following terms:—

(1) The work of finding appointments for ex-officers will be carried out solely by the Appointments Department, whilst the Officers' Association will confine its activities to relief work.

(2) The Officers' Association will appoint a representative to each district headquarters office to inquire into and interview hard cases, and disburse small sums for immediate relief where necessary.

(3) A military member will be appointed by the Officers' Association to act upon each panel of business men interviewing applicants for employment.

Employers are, therefore, requested to send notice of all *vacancies* to the Appointments Department at Clement's Inn, and on the other hand all officers *seeking* employment will be referred to the same department.

International Law.*

By D. F. de L'Hoste Ranking, M.A., LL.D.

In the following very interesting paper Dr. Ranking traces the development of International Law from the Jus Civile of the Romans to the present-day ideal of a League of Nations. He explains the effect of the law in war time on the rights of belligerent States.

"A problem still unsolved while war exists." This is how Dr. Whewell nearly 70 years ago spoke of International Law. At that time, shortly after the great Exhibition of 1851—an exhibition which would, it was fondly hoped, inaugurate an epoch of peaceful competition between nations—there existed a vague idea that a period of universal peace was about to dawn upon the world. How little basis existed for any such Utopian idea has been shown over and over again since Whewell's time; and never has this been more clearly demonstrated than during the war just ended. "A grave, or serious, or gross breach of International Law"; how often of late years have such phrases appeared in the newspapers? and the only possible comment on such remarks seems to be: "Is this so? and if so, what do you propose to do about it?" Personally, I, when I have seen such remarks, have always been reminded of the plight of the Consul recorded in the Anti-Jacobin:

"The Bey then gave his orders

In Arabic and Persian:

"Let no more be said, but bring me his head,
These clubs are my aversion."

The Consul quoted Bynkershoek,

And Puffendorf, and Grotius:

And proved from Vattel exceedingly well,
Such conduct was most atrocious!

'Twould have moved a Christian's bowels

To hear the doubts he stated:

But the mutes they did as they were bid,

And strangled him while he prated!

Mark the irony of it: the Consul had all the authorities on his side; but the Bey had the mutes and the bow-strings. The finest arguments fail before *force majeure*, unless they have physical support.

Substitute Serbia or Belgium for the Consul of the poem, and we have a forecast of what happened during the late war.

We are driven then to consider the question: Is there such a thing as International Law? If there be not; how did the fiction of its existence arise? and can that fiction ever be made a reality?

We must first examine what we mean by a law. Austin has objected to the term "law" being used when speaking of international relations, on the ground that nothing can, strictly speaking, be called a law which

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cannot be enforced by a superior authority or supreme sanction. I am in agreement with him here; it has been objected that Austin has no right to limit the meaning of a term which was already used in a much wider sense, since he allows that Divine Laws are laws properly so-called, and Divine Laws are identical with the Laws of Nature, upon which the Law of Nations is based.

There is a confusion of ideas here which can hardly escape your notice. Assuming that Divine Laws and the Laws of Nature are identical, then there is a Supreme Sanction: "*Expellas naturam furca, tamen usque recurret*"—if you infringe the laws of nature, nature will most assuredly avenge herself, and punish your contempt.

But, as we shall see, there is also a confusion of terms here; the Law of Nature on which International Law claims to be based has little or nothing to do with the Laws of Nature as meaning the Divine Laws by which nature is governed.

Professor Westlake, in the introduction to his work on Private International Law, says that "No set of rules, national or international, will ever be reduced to a reasonable certainty unless they are regularly applied, or some authoritative judgment is passed on the question of their application."

Hooker, on the other hand, would recognise as a law "Any kind of rule or canon by which actions are framed"; but this would seem to exclude any idea of an International Law, since each nation is entitled to frame its own rule or canon without reference to others.

International Law, or the *Jus Gentium*, claims to be based on the *Jus Naturale* or Natural Law (not the "Laws of Nature," mark you). The term *Jus* in Roman Law is ambiguous, signifying both law and right. Justinian makes it include all commands, both of law and morality, and classes it under three heads: *Jus Naturale*, the law of right and reason inherent in nature, which is binding both on men and animals; *Jus Gentium*, those rules of law which were found to be common to all nations; and *Jus Civile*, the laws of each particular State.

It is with the *Jus Civile* that we will first deal, since it is upon this that the modern system of private International Law is founded.

The *Jus Civile* was, strictly speaking, the special law of Roman citizens, by which they only were bound, and of which they only could avail themselves. It is of the essence of nationality that a nation shall have the power of making its own laws, which shall be binding on its own subjects, and upon foreigners who chance to be within its jurisdiction. On the other hand, no nation can make laws which shall have any inherent validity outside its own jurisdiction; nor can the subject of one country claim the benefit of its own laws, as against the laws of the country within whose jurisdiction he happens to be at the moment. It will be seen that if this doctrine be strictly insisted upon, the courts of this country not only need not, but could not, take into consideration the laws and judgments of foreign countries, and the earliest text-books are almost entirely silent on such matters. But the influence of the Ecclesiastical and Admiralty Courts speedily but silently modified this view; the judges in these courts had to deal with matters of more than local interest and importance; and in their judgments they gave effect to the maxims of the Roman Civil Law which they had studied in continental schools. These maxims embodied the principles of that

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Roman equity which had modified the harshness of the *Jus Civile* by recognising the existence and applicability of the *Jus Gentium*.

Rome and the Roman Empire contained a variety of races, all subject to the Roman jurisdiction; but, unless they were Roman citizens, the *Jus Civile* was not applicable to these subjects. But all these people, especially those belonging to Italian communities which did not possess the rights of citizenship, possessed laws of their own, and all these varied laws were found to have some points in common. The Roman jurist, therefore, examined the laws of these various communities of non-citizens, and wherever it was found that a usage, or custom, or form, was common to a majority of them, it was concluded that this formed part of a law common to all nations; in this way there was formed a body of rules called the *Jus Gentium*, which could be applied in deciding disputes between citizens and non-citizens, or between two non-citizen litigants.

When the northern races overran the northern part of the Roman Empire they brought with them their own laws for their own people, but they left the conquered provinces in possession of their own laws, whether Roman or native, so that it was possible to find two or three different kinds of law in one province: the Roman, applicable to Roman citizens; the native (usually a customary law), applicable to disputes among the natives; and the laws which held good for the conquerors themselves. When disputes arose between members of different bodies, then resort had to be made to certain principles which were established as common to all—that is, to the *Jus Gentium*.

On these principles, which had spread to this country from the Continent, English Judges acted, and by their decisions recognising certain rules and customs of the laws of foreign countries as based on a presumed general agreement common to all nations, and allowing their application here, so far as they were not in direct opposition to English Law, they gradually established a science of private International Law. It would be impossible in a sketch like this to go more fully into this branch of the subject; it must suffice to say that the matters to which it is specially applicable are such as the validity of marriages, succession to movables at death, the validity of and enforcing of contracts, and the circumstances under which, and the extent to which, effect is to be given to the judgments of foreign courts.

But, important as it is to all who are brought into intimate relations, social or commercial, with members of foreign States, this aspect of the Law of Nations commands comparatively little attention. It is public International Law which holds the attention of the public, and it is breaches of this so-called law which rouse the greatest indignation; and this because these breaches strike at the security, not of one or more individuals, but of the nation as a whole.

The term *Jus Gentium* is commonly applied to Public International Law, but this, as Sir Henry Maine has shown, is a misnomer. The true term in Roman Law was *Jus Feciale*, the Law of Negotiation and Diplomacy; nor is this *Jus Gentium* the same with that known to Roman Law under that name, which meant, as we have seen, those rules of law which were found to be common to all the communities known to the Roman world.

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The whole conception of a Law of Nations has been one of slow and gradual development, and is, to a great extent, the outcome of a school of philosophical thought which professed to believe that there had at one time existed an ideal state of society governed by what they called Natural Law; that this Natural Law must have been identical with the Will of God, and must, therefore, be binding on all nations. It was also put forward as an axiom that by the philosophical consideration of the ideal man in the ideal State it is possible to reconstruct these Natural Laws, and that by these laws the relations of States should be governed. You will see at once that the weakness of this theory is exactly the same with that which undermines all theories of political economy; it leaves out of consideration the unknown quantity, human nature, and assumes that, certain rules having been formulated, all men will act in accordance with them.

According to Maine, the postulates of International Law are as follows:—

1. There is a determinable Law of Nature.
2. Natural Law is binding on States, *inter se*.
3. Independent communities, however different in size and power, are all equal in the view of the Law of Nations.

There is a fourth postulate by which the idea of the State was merged in the personality of the ruler; it is that sovereignty is territorial, and sovereigns, *inter se*, are to be deemed the absolute owners of the State's territory.

A State, as apart from its ruler, may be defined as "an aggregate of human beings having definite relations to territory, to social existence, to government, to a past and future, and to national unity."

The attributes of a State are:—

Sovereignty, which implies the right to manage its own affairs, to rule its citizens, to alienate or acquire territory, and to uphold the integrity of its existence.

Independence, that is exemption from every species of interference on the part of other States.

Interference in the affairs of a foreign State can only be justified by breach of treaty, or by the continuance of a hopeless state of internal revolution.

Since States in their relation to one another must be regarded in the light of individuals they are, like individuals, possessed of rights and also subject to obligation. The obligations have been divided into those which are natural, necessary, absolute, and primary, answering to the rules of equity, and those which are voluntary, arbitrary, and secondary. These latter may again be sub-divided into those which are customary, answering to the rules of Common Law, and those which are conventional, being based upon treaties, and answering to Statute Law.

The comparison with Equity, Common Law, and Statute Law is somewhat unconvincing, since there is no fixed tribunal which can direct obedience or punish disobedience.

The rights of States are either natural and customary, or are conventional, depending upon treaties; the actual or apprehended violation of a right is the only ground for a just war.

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The natural rights, apart from treaty, are to acquire and possess territory; to have, in the case of a maritime State, ships of war which shall possess the characteristic of ex-territoriality, being exempt from foreign jurisdiction even when in a foreign port; the right to protect the lives, liberty, and property of its own citizens; the right to free use of the open sea for commerce and fishing (we may now add to this a similar right to the free use of the air); and a right of general jurisdiction on the open sea against piracy.

The rights arising from treaty are those relating to commerce, general comity, copyright and patent, extradition, and matters of like kind.

Treaties are the only forms of conveyance known to the Law of Nations, and differ from private contracts in that they are of necessity consensual, and are not rendered invalid by force or deceit.

The old idea was that treaties are binding till relaxed by a friendly arrangement between the contracting parties. "Kultur" asserts that they are only binding so long as they do not prove inconvenient. Even war does not in all cases annul treaties between contending States; it does not annul those made in the interests of morality and humanity; nor those which are in the nature of a perpetual obligation.

But all these rights, natural or conventional, are liable to be upset by a state of war, and therefore, to avoid universal confusion, it is necessary that there should be recognised rules, prescribing the conduct to be observed by belligerent States, not only as between themselves, but towards neutral nations whose interests may conflict with their own.

Short of a state of war, various methods have been at different periods employed with the object of obtaining satisfaction for breaches of the Law of Nations, such as Retorsion, that is, the employing the same treatment towards the citizens of a foreign State as is used towards your own. There were formerly other forms of reprisal which have now been abolished by convention, such as general reprisals in time of war, which authorise any subject to act against the subjects of a hostile State. This was done by privateers, commissioned by letters of marque. The use of privateers was forbidden by the Declaration of Paris, 1856, but these regulations are only of force as between those parties who were parties to the declaration.

A State may also resort to embargo, which is a form of sequestration of the property of individuals, or it may use ordinary reprisals, which are a forcible means of obtaining redress short of war. They may be *negative*, as when a State refuses to perform an obligation or to allow another nation to enjoy a right; *positive* when the State seizes persons or effects belonging to other nations in order to obtain redress.

When war actually breaks out, International Law is supposed to regulate: the mode of carrying on war, the persons who have a right to carry on war, the treatment of prisoners, the treatment of enemy civilians, the right to seize enemy property, and the rights and duties of neutrals.

As between the belligerent nations themselves, the effects of the state of war may be said to be that trade is suspended, no contracts are legal, no debts can be enforced, and no suits can be entertained by or against an enemy. Our own Court of Appeal has decided that an alien enemy can, if sued, appear to defend himself, but that if judgment be given against him he cannot, while war continues, enter an appeal.

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The persons and property of enemies in the State at the time of the declaration of war are liable to capture, but leave is usually given to withdraw within a reasonable time, or to remain during good behaviour. This is, however, only a treaty right, and those electing to remain may be liable to internment.

It has been a general rule that the immovable property of aliens is not confiscated, and that the movable property of individuals is not liable to seizure. This, however, must, to a large extent, be regulated by the conduct of the other belligerent; reprisals may take the form of confiscation. Quite recently certain German ships which were seized in our ports on the outbreak of war have been condemned as prize, the grounds of the decision being that, since Germany gave no time limit for departure to our ships in their ports, the same treatment must be applied in these cases. Enemies' property in public funds is always respected, and private debts are suspended, but not extinguished.

The mode of carrying on hostilities is a matter which constantly gives rise to much debate, and during the recent war the use by our adversaries of new methods and implements of war constantly caused much complaint as being against the rules of International Law. Such complaints were, in fact, ill-founded. The object of war is the conquest of your adversaries, and, primarily speaking, all means are lawful which conduce to this end. Vattel says that in a just war all that is necessary is lawful, and that the actual necessity is the only limit. The Law of Nature imposes this limit of necessity as to the nature and extent of the violence to be used; the Law of Nations imposes certain limits as to the mode of using them. It was generally accepted that as between civilized nations the use of poison and treachery was forbidden, as also was the use of soft-nosed bullets, or of explosive bullets of less than a certain weight. The accepted limit till the recent war had always been that non-combatants must be exempted. War is to be directed against the forces of a State, not against individuals, and only fortified towns may be besieged or bombarded.

The Hague Convention of 1899 forbade among other things the discharge of projectiles and explosives from balloons or by other new methods of a similar nature, and also the use of projectiles the sole object of which is the diffusion of asphyxiating gases, but note well that German jurists have always contended that the observance of any or all of the Hague regulations ceases to be obligatory "when the circumstances are such that the attainment of the objects of the war and the escape from extreme danger would be hindered by observing the regulations imposed by the laws of war." Necessity knows no law. On the occupation of enemy territory it is permissible to seize the property of the State, but not the property of individuals; this latter can only be lawfully reached by means of requisitions, properly levied by the commander of the occupying forces. Enemy property at sea is always liable to seizure, owing to the necessity for destroying enemy commerce.

The outbreak of war between two or more States at once gives rise to a conflict of rights between the belligerents and neutral nations. A neutral nation has a right to exemption from any injury from either belligerent, this right being coupled with an obligation to observe the strictest neutrality. An antecedent treaty may apparently modify the obligation so far as to allow one belligerent to levy troops in a particular neutral country, while this right is denied to another belligerent; but

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apart from such treaty obligations, any act of this kind would be a breach of neutrality. Our own Foreign Enlistment Act of 1870 forbids enlistment in the service of a foreign State which is at war with a State friendly with ourselves, or the building of ships or fitting out of expeditions for the same purpose; while the Treaty of Washington, 1871, requires a neutral Government to use due diligence to prevent the fitting out of vessels adapted for carrying on war against a power with which it is at peace, and to use like diligence to prevent the departure of any such vessel.

Apart from the question of active assistance given by neutrals comes the question how far a belligerent has a right to interfere with or restrict neutral commerce. It has been claimed on behalf of neutrals that commerce is necessary to a State; each State has a right to it, and no other State can justly interfere with the right. War should affect the belligerent States, and them only.

Belligerents reply that war is a right; no State not being a party to the war can be allowed to interfere with that right. Full liberty must be given so long as no injustice results from it. The restrictions placed on commerce are trivial compared with the difficulties which might arise, and the injury which might be done by unrestricted commerce.

I do not deal here with the very difficult question of effective blockade; it is, of course, open to either belligerent power to prevent any access, whether by neutrals or others, to a blockaded port. I shall simply speak of the right of a belligerent to capture on the high seas goods in the course of being conveyed to an enemy port.

I have already mentioned that while on land the private property of individuals is not liable to seizure, no such protection is given to private property on the seas; all such may be captured and confiscated, since one of the chief ends of war is to destroy enemy commerce. The same reason justifies the restriction of the right of neutrals to trade with a belligerent power, and the seizure of any goods, belonging to a neutral, which are destined for an enemy country, and which might in any way aid the enemy in carrying on or prolonging the war; those goods which come under the head of contraband of war, whether as being in their nature obviously contraband, or as being contraband under the particular circumstances of the case. This latter class is known as occasional, accidental, or facultative contraband, and is created by declaration of either of the belligerents, such declaration being duly communicated to neutrals.

The goods of enemies, or any contraband of war, have at all times been liable to capture by the men-of-war of a belligerent, and till 1856 they were also liable to capture by privateers, that is ships owned and commanded by private persons but acting under a "Commission of War" issued by the belligerent Government, of which the owners were subjects. At one time, in the case of a neutral ship carrying enemy goods, the ship itself was forfeited; under the provisions of the Declaration of London of 1909 a vessel carrying contraband of war may be condemned if the contraband reckoned by value, weight, volume, or freight, forms more than half the cargo.

The right to issue commissions of war to privateers was relinquished by us under Article 4 of the Declaration of Paris, 1856, which provides that "privateering is and remains abolished." In my humble opinion our adhesion to a clause of this kind was a great mistake.

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Various rules as to the power of seizure have prevailed at different times. That great source of Maritime Law the "Consolato del Mare" (the date of which is by some authorities carried back to the eleventh century), laid down certain simple rules; neutral goods on an enemy's ship were free, while enemy's goods on a neutral ship could be taken, freight being paid by the captor.

A decree of Francis I in 1543 established the French system, called sometimes the "Rule of Mutual Infection," under which all goods on an enemy's ship were subject to forfeiture, while the finding of enemy's goods on a neutral ship entailed confiscation of the ship.

The Dutch, at the time when they were the greatest carrying power, sought to establish a third rule, which may be briefly summarised as "free ship free goods, enemy ship enemy goods"; that is to say, that enemy goods in a neutral ship go free, while neutral goods of any kind are liable to capture if found on an enemy ship.

Finally, the rule at present obtaining was established by the Declaration of Paris, 1856. This is that the neutral flag covers enemies' goods, except contraband of war, and conversely that neutral goods under an enemy flag are not liable to seizure unless they are contraband of war.

The right to seize carries with it as a corollary the right to stop ships under a neutral flag in order to ascertain whether they are in fact neutral, and, if neutral, whether they are carrying contraband of war destined for the enemy. This undoubted right has given rise to many disputes during the late war.

A vessel is found carrying contraband of war; her papers show that the destination of the contraband is a Scandinavian or other neutral port. Was it the intention of the shippers that this neutral port should be only a port of trans-shipment, whence the goods should be forwarded to the belligerent country? If so, they may be seized under the doctrine of "continuous voyage." The Declaration of London, which fortunately has never been ratified, would have abolished this doctrine as regards conditional contraband.

Again, has a vessel which originally sailed either from its own country or from a neutral port as a merchantman, a right to change its character on the open sea, and claim to be reckoned as a part of the naval forces of its country, so as to have the power of search and capture? This question has never been settled; the Hague Conference of 1907 failed to agree upon it, and pending a decision, all continental powers claim the right to make a conversion of this kind on the open sea.

One of the most burning points in dispute is the right to search neutral ships sailing under convoy. The Baltic Powers, France, Germany, Austria, Spain and Italy, have always contended for immunity, but the contention has, till lately, always been resisted by ourselves. Sections 61 and 62 of the Declaration of London, 1909, accept the continental view, on condition that the commander of the convoy gives in writing all the information as to the character of vessels and their cargo which could be obtained by search. The Royal Proclamation of August 20th 1914 ordered that the Declaration of London, subject to certain modifications and variations, should be put in force as if it had been ratified.

These being some of the principles and maxims of International Law so called, it remains to see how their observance can be enforced, and

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whether any method can be found by which disputes between nations can be settled without recourse to war.

I will say at once that I do not believe that war will ever cease entirely, nor do I believe that war is, in itself, either unchristian or contrary to the purpose of God. There may arise cases in which war is the only remedy left to a nation, and on the other hand, while human nature remains as it is, there will always be the possibility of a war of aggression. It may, however, be possible to minimise the chances of disputes culminating in war, and various methods of accomplishing this end have, from time to time, been suggested.

So long ago as the early part of the 17th century, Henry IV of France and his great Minister Sully formed the scheme known as the "Great Design," by which all Christian Europe, excluding Muscovy, was to be organised into a federation with a common Government backed by a common force. This Government would settle all disputes between the component States, and suppress wars—by force! The scheme was impracticable, because it infringed on national independence.

Mediation is another method sometimes resorted to or suggested, which means that on disputes arising the advice and opinion of an independent and uninterested State should be sought, it being hoped that the opinion obtained will carry moral weight.

Resort has sometimes been made to arbitration, the appointed arbitrator giving not only advice, but a decision. There are two difficulties attending this plan: first, it is becoming more and more difficult to find an absolutely unbiassed arbitrator (Leibnitz, who wrote about 1693, suggested the Pope and the Roman Emperor, that is the Emperor of Austria, as permanent arbitrators, but any such scheme was unacceptable to Protestant States); secondly, there is no means of compelling compliance with the decision except by war.

Will the proposed League of Nations be more successful? I do not believe so. Nations may meet, and may draft rules and frame regulations, but you have always the unknown factor—human nature—which may upset all your calculations, and the only mode of enforcing compliance with the rules and regulations will be by that war to which they were supposed to put an end.

"*Si vis pacem, para bellum.*" International agreements will be best observed when their breach is certain to be followed by speedy and condign punishment.

"When a strong man armed keepeth his house his goods are in peace."

Lest We Forget.

The recent ceremonies attaching to the unveiling of the Cenotaph, and the burial of the Unknown Warrior, have brought very vividly before us once more the magnitude of the debt we owe to the memory of those who gave their lives in defence of their country.

At the same time, the mourning for those who have gone throws into stronger relief the debt we owe to those who have come out of the great struggle maimed and helpless—the halt, the lame, and the blind. It is, indeed, a distressing sight to see men who have so gallantly served their country, and bearing medals of highest distinction, going round the streets with a hand organ. Surely the Government should make some provision to remedy such a crying scandal. If they cannot, or will not, cannot we, as private individuals, do something?

Audit Programmes and Procedure—VIII.

By Andrew Binnie, F.C.A., C.A.

Some suggestions are made this month by Mr. Binnie as to the information which it is necessary for the auditor to have respecting each audit, and the way in which this information should be kept, also as to vouching the cash.

The Note Book, Filing Papers, &c.

A separate note-book should be kept for each audit, and divided into four sections as follows:—

I.—Information of a permanent character as to the particular audit to which the note-book relates, such as:—

Name of company.

Address of registered office.

Date of registration of company.

Date entitled to commence business.

Names of directors, and what number of directors (who must be qualified to act and vote) constitutes a quorum.

Name of secretary.

Name of solicitors.

Name of bankers.

Complete list of books kept, and of names of staff who keep same, with

Their respective duties.

(At subsequent audits record any variations in respect of above particulars.)

From Prospectus, or statement in lieu of prospectus, and Memorandum and Articles of Association and Debenture Trust Deed (if any):—

Qualification and remuneration of directors. (This is not required to be disclosed in statement in lieu.)

Agreements with directors or others for remuneration, salaries, &c.

Amount of purchase money, how to be satisfied, and amount of goodwill.

Short particulars of material contracts.

Shares and debentures issued otherwise than for cash.

Underwriting commission (which must be stated in prospectus or statement in lieu, and authorised by the articles of association).

Minimum subscription.

Also

The objects of the company.

The powers of the directors, and their authority (if any) to delegate same to others, and how a quorum is constituted.

NOTE.—A director who is precluded from voting by reason of a personal interest in the matters under consideration, must not be reckoned as present for the purpose of making a quorum.

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The company's borrowing powers, and the means by which same may be exercised.

Summaries of all binding contracts referred to in the prospectus, Memorandum and Articles of Association, or Minutes of the directors.

A summary from the Memorandum and Articles of Association, Minutes, Debentures, or Debenture Trust Deed, &c., of the authorised Debenture issue (if any), what is charged to same, how and when repayable and at what premium, the rate of interest, remuneration of trustee. A summary of the Share Capital and of the Dividend Rights attaching thereto, stating whether Dividends are payable on the amount paid up in respect of share capital, or upon the nominal amount of capital issued.

A summary of any articles relating to the accounts and the auditors, but having due regard to Section 113 of the Companies (Consolidation) Act, 1908.

II.—List of work to be done, sub-divided into :—

(a) Common to all audits.

(b) Applicable to the audit to which the note-book relates.

III.—Notes, including extracts from minutes, points to which the attention of a principal should be drawn, particulars of corrections and adjustments to be made, &c.

IV.—Queries and replies thereto which should be stated concisely but clearly, with references to books and folios, and should not be allowed to accumulate, but settled as far as possible from day to day.

A convenient practice is to embody (I) and (II) in a permanent note-book, and to have another note-book for (III) and (IV). The pages of the note-book should be numbered consecutively, so as to facilitate reference.

NOTE.—For those who fold and indorse papers and keep them in bundles, note-books are available, cut to a convenient size to fit the bundles. The practice of binding papers in a file without indorsing or folding them is growing. This practice has one great advantage, in that individual papers cannot be readily mislaid, but even if papers were all of a uniform, or nearly uniform size (with a margin for filing), the file becomes cumbersome, and is, therefore, not adapted to auditing, so little of which is carried out in the auditor's office. The inconvenience of carrying files about from place to place is obvious. If filed, the papers should be arranged in a suitable order, and numbered consecutively before being placed on the file, so that if taken off the file they may be readily replaced in the proper order. A glance at the numbers also shows readily whether any papers are missing. The top sheet of the file should be a list of the papers filed, giving the consecutive numbers. Letters relating to the audit should be on a separate file, and carbon copies of the auditor's letters to the client should also be placed on the letters file all in order of date. These arrangements enable the auditor to pick up the threads of a matter with the least loss of "time occupied." Each bundle or file should be numbered for reference and put away (when not in use) in numerical order. An alphabetical register of audits should be kept, giving the distinctive number of each bundle or file. In large practices it is often the work of one person to receive and file the

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papers and letters, to issue and receive the files and keep the index. Where the filing system is resorted to, the note-books should be replaced by loose sheets, which can be more conveniently filed than note-books, a permanent file being kept for (I) and (II), and a separate file for (III) and (IV).

Vouching and Verifying the Cash.

The object of vouching is not only to test the accuracy of the receipts and payments as recorded in the Cash Book, but to see that the entries are sufficiently clear and full to enable the auditor to satisfy himself that the receipts and payments are posted to the proper accounts, and that correct apportionments have been made. Where the direction and management are efficient, the general organisation and the bookkeeping expert, and the vouchers and other documents properly arranged and readily available, vouching can be carried out effectively and quickly. Where the bookkeeping is defective, and the documents and vouchers ill-arranged or missing, the directors or partners are obviously taking a risk, and the auditor, for his own protection, would do well to draw their attention to what is defective. It is the duty of directors, and the interest of partners, to take proper precautions against misappropriation, for the discovery of irregularities by the auditor in the course of examining the accounts on behalf of the shareholders after the close of the year does not restore what has been taken. If the audit is intended to close the door to irregularities by employees it should take the form of a continuous, specially devised internal check at an adequate remuneration, for part of the machinery of management is being superimposed on the auditor in addition to his ordinary functions.

Cash Received.

Apart from exceptional items or special matters, receipts are generally on account of Book Debts or Cash Sales, which to some extent are indirectly vouched in the carrying out of the work already referred to in scrutinising the Ledger balances. A comparison of cash received with receipt counterfoils is obviously idle unless a system is in operation by which the counterfoils themselves are adequately controlled. In one case of misappropriation it transpired that the cashier himself handed particulars of the receipts to the counterfoil receipts clerk, whose duty it was to make out the receipts.

NOTE.—To control the cash received and the counterfoil receipts the manager, in opening the letters, should make a jotting of the remittances they contain. The cashier should be present, and should take the remittances as well as the covering letters, afterwards handing the letters to the counterfoil receipt clerk to make out the receipts. The jotting made by the manager should be compared with the counterfoils of the receipts, after which the counterfoils should be compared with the Cash Book, or vice versa. In this way the major part of the cash received may be effectively “vouched at the source,” except in small businesses, in which the principal himself must exercise a strict control.

Other items may be vouched as follows :—

Cash Sales, by reference to properly controlled counterfoil receipts, or to statements of cash sales duly authenticated by the signatures of two inde-

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pendent persons or by a cash register. Receipts from travellers by reference to the travellers' returns, or by reference to the travellers' counter-foil receipts if they collect money, supported by a scrutiny of the customers' Ledger Accounts; dividends on bad debts by reference to official documents or correspondence; withdrawals from Deposit Account by reference to the Bank Pass Book and by agreement of the balance on deposit as certified by the bank; bills receivable by reference to the Bill Book and Customers Ledger Accounts; loans by reference to the Register of Mortgages, to the documents of loan, minutes and correspondence; rents receivable by reference to the rent roll as settled by reference to the leases; dividends by reference to the counter-foils of the warrants, or to the securities themselves, or to the Stock Exchange Official Intelligence; sales of investments by reference to the brokers' contract notes; sales of property by reference to the solicitor's completion statements and agents' accounts; return of tax or Excess Profits Duty by reference to the claims submitted and to the official correspondence.

(See also preceding articles under headings "Examining Ledger Balances, Loans, Borrowed Moneys, Stocks and Shares, Work in Progress, Rents and Ground Rents, Discounts, Royalties, Bad Debts, Income from Investments, Share Capital, Debenture Capital, Transfer Fees, &c. &c.)

Cash Paid.

The auditor should ascertain what signatures are required to cheques, how the cheques are crossed, and what precautions are taken by the directors or partners before signing them. Cheques signed by two directors and countersigned by the secretary, or signed by partners and regularly indorsed, ought to be sufficient evidence of payment, and still more so if the cheques are crossed "Account Payee only," and the name of the payee's banker added to the crossing, provided cheques are only signed on the production of invoices or other statements relating to the payment duly checked and passed for payment independently of the cashier. In well organised businesses receipts are not given on invoices, but on statements of account with an official form of receipt as an additional safeguard. If the invoices or other statements are entered up in a columnar Invoice Day Book, the debits being posted in total to the appropriate Impersonal Accounts, the auditor can satisfy himself as to the allocation of the amounts by examining the Invoice Day Book with the invoices or statements. The Day Book entries are checked to the Bought Ledger, the cash payments vouched and called to the Bought Ledger, and the Bought Ledger balances examined, thus making a complete check. As a rule, indorsed cheques should not be accepted as vouchers without supporting evidence, and in any case only where the system of internal check is known to be carefully carried out.

Illustration.

(An invoice clerk received an invoice for £10, and in due course a statement for the same amount net. He altered the £10 on the invoice to £16, and procured a cheque from the cashier for £16 by producing the invoice, saying that he was calling at the payee's office and would hand him the cheque. At the payee's office he produced the statement for £10 with the cheque for £16, explained that a mistake had been made by the cashier, got the statement receipted, also £6 in gold to pay into

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"Petty Cash" to square matters. He then destroyed both the invoice and the statement, and pocketed the gold. On asking for a receipt, the auditor was shown a cheque properly drawn and regularly indorsed by the payee and cleared through the payee's bank. He, however, asked for the corresponding invoice, but there was none. On pushing his inquiries further, the whole story came out, and proved to be the first of a series of similar frauds, to which a lack of systematic control had opened the door.)

The payments in the Cash Book should be numbered consecutively, and the vouchers numbered to correspond, and bound together in that order, and in such a way that they can be examined without loss of time in unfolding and refolding them. The vouchers, after comparison with the Cash Book entries, should be distinctly marked either with the initials of the auditor, or preferably with a rubber stamp, so that the voucher cannot be altered and used again. The auditor should see whether the date corresponds closely with that in the Cash Book, whether the statement is made out in the name of the client, and if not why not. Where the voucher is also an invoice, note whether on the face of it the payment relates to the business. A list of missing vouchers should be made and submitted to a responsible and independent official, who should be asked to certify that the payments are in order. Apart from stamped vouchers, evidence of payment may also be available in the shape of correspondence, agreements, or other documents, supported by indorsed cheques. Where the receipt (which should be stamped) is on the back of a cheque issued by the client, in what is now a fairly common form, it may be necessary to examine the invoices and the payee's Ledger Accounts as already mentioned, in order to see that the payments are made against proper credits. In the case of directors' fees, auditors' charges, and other similar payments, the amount of which is readily ascertainable from independent sources, such as articles of association, minutes of meetings, &c., an indorsed cheque is ample evidence of payment, due regard being paid to the date of the cheque and the indorsement, and the total payments.

Bills payable retired should be produced. Official receipts for rates and taxes should be available, and the auditor should take notes of the details necessary to check the apportionments. In the case of insurance premiums, the policy is the voucher for the first payment, and renewal receipts should be produced for subsequent payments. For interest payable a voucher should be produced showing that tax has been deducted, except in the case of bank interest, which is checked by reference to the Bank Pass Book, and from which tax is not deducted. Where Debentures are paid off, or Charges redeemed, the Debentures or documents should be produced, duly *cancelled*, unless, in the case of Debentures, they are being kept alive for re-issue. Payments for properties should be verified by reference to the solicitors' completion statement and agents' accounts. Investments by reference to the brokers' contract notes and the securities. Applications for shares by reference to the bankers' receipts for the amounts payable on application and allotment, and calls by the bankers' receipts, or by the indorsement on the share certificate where the receipts have been exchanged for the share certificate.

Wages.—A summary of the wages sheets, supported by the wages sheets themselves, and duly certified as to the time, the rates of pay, calculations, extensions, and checking of same by the persons respon-

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sible for same, and countersigned by the official who actually pays the money as well as by the works manager, is usually considered a sufficient voucher. The auditor may, however, check the details sufficiently to satisfy himself that the officials are carrying out their duties in a careful manner. The most effective method of vouching wages is, however, by means of a surprise wages audit, at which, by arrangement with the directors or partners, the auditor unexpectedly presents himself, checks everything in detail, and overlooks the actual payment of the wages, supported by a manager who knows the hands.

Payments of Petty Cash.—These payments should be agreed as to date and amount with the entries in the Petty Cash Book, which, in its turn, should be reasonably vouched and tested as to casting.

Customs Duties.—No receipts are given. The payments are made either in cash or by a transfer on the Bank of England. In the latter case the returned transfers are available as evidence. The payments should, however, be substantiated by a certificate given by an independent person, stating that the amounts have been duly paid in respect of Customs Duties.

A comparison of the names in the Cash Book with the names in the Bank Pass Book when comparing the two books may sometimes lead to the discovery of irregularities—where, for example, the cheque is drawn in one name, but another name entered in the Cash Book.

(See also under Loans, Borrowed Moneys, Stocks and Shares, Leases, Rents and Ground Rents, Bank Charges, Salaries, Commission, Royalties, Subscriptions, Law Costs, Debenture Capital, Preliminary Expenses, Underwriting Commission, Debenture Interest, Directors' Fees and Expenses, Dividends, Partners' Salaries and Drawings, &c. &c.)

Offences under the Debtors' Act.

An interesting case to students of Bankruptcy Law was heard in the Bankruptcy Court recently, when a debtor applied for the acceptance of a scheme of arrangement providing for his creditors a cash composition of 5s. in the £.

The Official Receiver formally reported the following offences :—

- (a) Insufficiency of assets to equal 10s. in the £ on the amount of the liabilities.
- (b) Contracting debts provable in bankruptcy without having reasonable grounds of expecting to be able to pay for them.
- (c) Contributing to his failure by rash and hazardous speculation.
- (d) Unjustifiable extravagance in living.
- (e) Not being justified in executing an ante-nuptial settlement of £5,000 to his wife.

In spite of these facts, however, the composition was approved and the bankruptcy annulled.

Income Tax Practice—VIII.

Before passing on to further aspects of Income-tax and Excess Profits Duty, our Income-tax contributor devotes his article this month to the consideration of some of the cases decided in the Courts on the question of Excess Profits Duty.

Excess Profits Duty Cases.

Remuneration.

In re France Fenwick & Co.

This case dealt with paragraph 5 of Part 1 of the Fourth Schedule to the 1915 Act, which enacts that:—

“ any deduction allowed for the remuneration of directors, managers, and persons concerned in the management of a trade or business, shall not, unless the Commissioners of Inland Revenue, owing to any special circumstances, or to the fact that the remuneration of any managers or managing directors depends on the profits of the trade or business, otherwise direct, exceed the sums allowed for those purposes in the last pre-war trade year.”

It was held by the Court that this provision gave to the Revenue an absolute discretion to disallow or allow all or any of the increased remuneration, and that the taxpayer had no right of appeal against the Revenue's disallowance.

The practice regarding allowances has already been dealt with.
Patent Castings Syndicate v. Etherington.

In this case it was laid down that when a manager, &c., received a commission based on net profits, that commission was to be calculated on the profits *after* deducting the Excess Profits Duty.

Husbandry.

Inland Revenue v. Ransome, Ltd.

Section 39 of the 1915 Act charges “ all trades or businesses (whether continuously carried on or not) of any description . . . excepting—

(a) husbandry in the United Kingdom.”

In the above case the company were manufacturers of medicinal chemicals, and they held certain lands on which they grew medicinal herbs for use in their business. It was laid down that there was no liability in respect of the profits derived from these herbs, and that the liable portion of the company's business should be debited with the market value of the herbs so used.

Income Tax Practice.

Deficiencies.

Inland Revenue v. Gittus.

Section 38 (3) of the 1915 Act provides that where a trader proves that "his profits have not reached the point which involves liability to Excess Profits Duty, or that he has sustained a loss in his trade or business, he shall be entitled to repayment of such amount paid by him as Excess Profits Duty in respect of a previous accounting period, or to set off against any Excess Profits Duty payable by him in respect of any succeeding accounting period, such an amount as will make the total amount of Excess Profits Duty paid by him during the whole period accord with his profits or losses during that period."

The normal working of this in practice has already been treated, but in the *Gittus* case a business changed ownership, and the successor, who became liable to Excess Profits Duty, claimed that he should have the benefit of the predecessor's deficiencies. The Court held that this could not be given, as a deficiency could not be transferred with a business, but was a personal item that was retained by the individual. The predecessor would thus be entitled to his deficiencies against any liabilities on any other business he might undertake during the continuance of the duty.

Breweries.

Weller v. Inland Revenue.

For income-tax, *Usher's Wiltshire Brewery Co. v. Bruce* laid down that a brewery company should be allowed to deduct the gross Schedule A of tied houses owned by the company, and let to tenants. This was based on the point that the tied houses were part of the company's business premises, and the Schedule A assessment of business premises owned and occupied by a trader is deducted under Schedule D, as the rental value is already charged under Schedule A, and a double charge would otherwise result. The question of double assessment does not arise with Excess Profits Duty, but the Court held that the Schedule A should also be allowed for that duty.

Investments.

Korean Syndicate, Ltd. v. Inland Revenue.

The syndicate was formed for the purpose of trading in the East, but trading was not entered into, and the capital was invested. It was held that there was no Excess Profits Duty liability, as there would have been none had the investments been held by an individual, and a company was no more assessable than an individual.

Deductions.

Warne v. Inland Revenue.

In this case a penalty was incurred under the Defence of the Realm Act, and it was claimed that it was deductible in arriving at the profits, but the Court held that it was not as it was not an expense incurred in earning the profits. Deductible expenses for Excess Profits Duty are those for income-tax, viz. those "wholly and exclusively" laid out for the purpose of the business.

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Small Capital.

When the capital involved in a business is small compared with the amount of capital required in ordinary commerce to obtain the same amount of profit, a new business is not restricted to a capital percentage standard, but is able to adopt the pre-war earnings or the profits from a discontinued business. Assume a business was commenced on 1st January 1920 by A., who had, up to that date, been in employment at the following salaries :—

	£
1911	400
1912	600
1913	850
1914	700
1915	750
1916	800
1917	900
1918	1,200
1919	1,500

The profits of 1920 were £4,500, and the capital of the new business was £2,000.

The pre-war standard would be :—

	£
1912	600
1913	850
	2)1,450
	<u>£725</u>

The 1920 liability would then be :—

	£	£
Profits		4,500
Less P.W.S. ..	725	
Allowance	200	
Capital	585	
		<u>1,510</u>
		60%)2,990
		<u>£1,794</u>

The capital would be increased capital, as there was no capital in the employment, i.e. £4,500 at 13 per cent.

Creditors' Accounts.

By S. E. Stone.

(Incorporated Accountant, Honours, Intermediate and Final)

In the following article Mr. Stone outlines a plan for keeping one account for all creditors instead of a separate account for each creditor. We shall be glad to have the proposal discussed in these columns.

The following is a system of keeping Creditors' Accounts which will save a great deal of labour on the part of the accounting staff, and also, by reason of its simplicity, greatly minimise the chance of errors.

The system consists of keeping *one* account for *all* creditors instead of a separate account for *each* creditor. The many advantages of the system will be set out later; the following is the working :—

Orders for goods are made out on the carbon copy principle, the order going to the tradesmen, and the carbon copy being retained for reference and subsequent comparison with the accounts.

The orders should ask for delivery notes to be sent with all deliveries of goods. These are checked off against the goods received, and if correct so certified. They are then compared with the order counterfoil, and if all the goods ordered are included in the delivery, the counterfoil is impressed with a rubber stamp as follows :—

Goods Rec. (date).

The date is on a revolving wheel and altered daily.

When the accounts are received from the creditors they are examined with the counterfoil orders to verify the receipt of all goods charged for. Each account should be impressed with a rubber stamp showing the following :—

Goods Rec.....	
Stores Bk. Fo.	
Price correct	
Extensions and Casting	
Certified	
	Head of Department.
Correct	
	Accountant.

The spaces are filled in with the initials of the assistants carrying out the various duties; the Stores Book Folio is inserted for future reference, and when the whole of the examination is complete the head of

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the department certifies the account. All accounts are then passed on to the Accountant's Department for final scrutiny. If all in order they are signed by the accountant, and filed in alphabetical order to await the creditors' monthly statements. When these are received they are checked off against the detailed accounts, and passed for payment by the accountant. A list of such accounts is prepared, also cheques in payment thereof, and submitted to the directors for signature if approved.

From this "List of Accounts for Payment" the Expenditure (or Purchases) Journal is entered. The following ruling will be found suitable for most concerns :—

Number of A/c.	Name of Creditor	Details of Account	Amounts of Accounts			MONTHLY TOTALS			Analysis cols. (10) headed with accounts to be charged with the expenditure					
			£	s	d	£	s	d	£	s	d	£	s	d

This Journal is entered and posted monthly, the "Total" column being posted to the Credit of a 'Total Creditors' Account, and the Analysis Columns to their respective expenditure accounts.

The cheques when signed are entered in the Cash Payments Book, the total agreeing with the total amount to be paid as shown on the list mentioned above. The Cash Book total is posted monthly to the Debit of Total Creditors' Account, and if all accounts received are included in the month's payment, this account will be found to balance. If all accounts are not included, the balance on the account will represent the amount outstanding due to creditors, and can be verified by examination of the actual accounts.

The advantages of the above system may be briefly stated as follows :—

1. Saving of time, labour, and expense, owing to one credit posting only having to be made instead of a number of postings as under the old method of keeping a separate account for each creditor.
2. Chance of errors occurring is greatly minimised owing to the reduced number of postings, less casting and less balancing, one account only to be cast and balanced instead of a number.
3. If *all* accounts received are paid, the total of the payments for any month (as per Cash Book) will always agree with the total due to Creditors for any month (as per Expenditure Journal); thus the Creditors' Account balances automatically and without any dislocation of the general office routine.
4. Interim Accounts can be prepared more easily and rapidly.
5. All the accounts are consecutively numbered and filed alphabetically.

The Account number appears in the Cash Book and Expenditure Journal, and an alphabetical index is prepared so that a complete system of reference is obtained.

Any creditor's account can be turned up within a few seconds.

EDITORIAL.

Advice to Students.

We are often asked as to the best course to be followed by students in preparing for their examinations, and we think, therefore, that the following advice may be useful to many of our readers who have not yet braved the terrors of the examination room.

Undoubtedly, one of the greatest mistakes that a large number of students make is to leave their preparations to within six or nine months of the examination—this, of necessity, means “cramming” pure and simple, and is a course to be strongly deprecated, and, further, it is a practice which the present day examiner attempts to defeat as far as he is able by making his questions as practical as possible.

Intermediate students are advised to begin attending classes bearing on the legal subjects comprised in the syllabus of their examination as soon as their articles are signed. It is not suggested that they should at once go to any of the recognised coaching establishments, as this would naturally entail a very heavy expense, but there are in the City, and, indeed, in almost every suburb also, institutions such as the City of London College, Birkbeck Institute, and Polytechnic, and L.C.C. Commercial Centres, where for quite a small sum a student may attend lectures on accountancy and all the necessary legal subjects, and a winter spent in this way costs very little, and lays an excellent foundation for building the more serious and detailed study that must follow later. An excellent plan also is to sit for the examinations of the London Chamber of Commerce, The Royal Society of Arts, and the National Union of Teachers, in bookkeeping, company law, mercantile law, economics, &c. These bodies require a very fair standard of excellence to secure their diplomas, and the experience of examination conditions gained by the student is invaluable, quite apart from the diplomas themselves, which may be very useful later on if the student himself purposes to apply for an appointment in one of the L.C.C. evening schools.

It is a great advantage to a candidate to become familiar with the atmosphere of the examination room ; it is comparatively easy to work out problems quietly at home, but an entirely different matter to do so when he has but three hours to do possibly eight or nine quite long questions—the hands of the clock then seem to have a wonderful way of racing round at about four times their usual speed. Veritably, time is the essence of the contract, as it were, in examinations, and however full a man’s head may be of knowledge, unless he has facility of expression and can place a

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tight curb on his nerves, it is quite possible he may make a hopeless failure. Candidates have been known to be apparently suffering from mental paralysis, and unable to write a word. We know of a man who is now at the very top of his profession who failed miserably at his first two attempts, merely on account of "stage fright"—the knowledge was there, but his nerves were in a hopeless condition. Therefore get as much experience of working under examination conditions as possible.

Six or nine months before the examination the student should then place himself in the hands of some well-known coach, avoiding as far as possible those who have practically no limit to the numbers of students in their classes—for what a student now requires is the personal interest, help, and advice of a specialist, who knows and understands his particular weaknesses and needs. In very large classes this is impossible, but if the number does not exceed twelve to fifteen the coach is able, as it were, to keep his finger on each student's pulse, to strengthen his particular weakness, point out his peculiar mistakes, and generally to be a very friend in need to each.

There is no doubt that a *correspondence* course should be combined with the *class* course, for it is most important that a student should be capable of expressing himself clearly, concisely, and also to confine himself to the subject-matter of the question alone—this art can only be acquired by constant practice. It is a great mistake for students to imagine that they have only to attend classes in order to pass an examination, but they must remember that it is not what the coach does *for* them, but what they do *for themselves*; the coach, of course, directs their studies, and is a "referee in case of need," but it is the amount of hard spade work done by the student himself that spells success or failure. System also plays a large part in successful study. We advise every student to make up his mind right at the commencement as to the number of hours a day he can definitely devote to study, and, having done this, carefully map out a programme, allocating the time at his disposal to the subjects comprised in his examination, giving a larger ratio of time to Accountancy, Costing, and Rights and Duties, as these are the most important subjects for the Chartered men, whilst Costing, Statistics, and Economics call for the special attention of the Incorporated final students.

If, say, three hours a day can be devoted to work—and a final student requires at least this time—we advise the first hour being devoted to law, the second to accounts, and the third again to law. It is, in our opinion, a mistake to devote the whole of an evening to one subject, for by variation of the studies interest is sustained and greater benefit derived in the long run. It is an excellent plan for the student to epitomise as far as possible his legal

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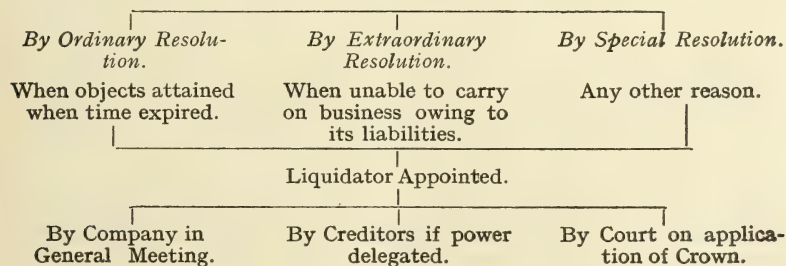
text-books and express them as far as he can in his own phraseology; in this way he makes the subject his own, and is far more likely to satisfy the examiner that he has grasped the principles involved than if he answers a question "parrot fashion" in the words of the book.

There are, of course, a great many details that must of necessity be committed to memory, and in such cases the student is advised to make up for himself some sort of mnemonic aid which will assist his memory. To illustrate what is meant, take the list of principal *differences* between the winding up of a company, compulsorily, under supervision, and voluntarily, given at the commencement of Spicer & Pegler's "Rights and Duties." If we adopt the word "calcare" we have a very useful frame on which to build the answer, e.g. :—

Commencement of winding-up.
Appointment of liquidator.
List of the contributories, how made.
Calls, how made.
Accounts, how passed.
Release of liquidator, how obtained.
End of company.

This, in effect, gives the key to 21 different answers, and it is seldom that an examination paper on this subject fails to include one of these details.

Another good plan regarding subjects such as Rights and Duties and Bankruptcy is to prepare a species of chronological table on the lines of a genealogical tree showing the natural sequence of events leading up to and following upon the petition—somewhat on these lines. A company is wound up voluntarily



The actual preparation of such a chart is invaluable in itself, and once being made it should be hung up either in study or bedroom where it will be constantly before the eye, and by degrees it becomes so familiar that the student will be able to mentally visualise it and draw from its details the answers to most questions that

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can be asked on the particular legal subject to which the chart applies.

The study of Bankruptcy is much simplified if the student makes an opportunity of attending the Bankruptcy Court, thus obtaining an actual demonstration of the methods adopted in the examination of a debtor by the Official Receiver, &c.; it somehow gives life to the whole business and makes the Official Receiver a human being instead of a more or less imaginary person.

To this end the holding of a mock meeting of creditors, so often carried out by students' societies, is an excellent practice. No matter what the legal subject may be, the idea of putting the various steps into chronological sequence is a very great help, and the chart idea may be applied to almost any branch, with great advantage to the student.

Nothing is so useful to a student as practical experience, therefore he should lose no opportunity of actually examining books, accounts, methods and systems of internal check, records and costings of any and every business he can possibly find. This applies more especially to accountancy and auditing, and a day's practical experience is worth weeks of mere working out examples from text-books.

We think it is a mistake to adopt the plan that is a common one amongst students, that is, to make a study of one particular subject at a time, leaving all others until that one is finished. Our idea is that it is infinitely better to study all the subjects concurrently, so keeping in constant touch with all; otherwise one may study Company Law, say, for a month, then, leaving it entirely alone, take up Mercantile Law for a month, with the probable result that at the end of the second month one may have practically forgotten a great deal of the Company Law.

It is very false economy to study from books which are not up to date. In correcting legal essays for prize competitions recently, dealing with Bankruptcy, &c., we noticed that one of the essayists had evidently written up his subject-matter from a book on the subject published prior to the Bankruptcy Act of 1913, so that many of his details were absolutely incorrect and out of date. We strongly recommend every student to be regular subscribers to their official magazines, for from this source they can always be sure of gaining up-to-date information upon recent legal decisions, new and up-to-date methods of dealing with costing, &c., and other matters germane to the examinations generally. A careful perusal of the financial columns of the *Telegraph* is also advisable, so many examination questions dealing with general commercial knowledge can only be properly answered by an intimate knowledge of such matters.

This article will be continued and concluded in our next issue.

Income Tax Notes and Comments.

In this column Income-tax recent alterations of law and practice are discussed and explained and readers' queries are answered. Arrangements have been made to reply to these queries by post, the replies being published subsequently in the "Journal" under noms de plume. A stamped addressed envelope should be enclosed with the queries and the service is limited to subscribers to the "Journal."

Allocation of Profits.

An important point was decided recently in *Hall & Co., Ltd. v. Inland Revenue*, where it was held that the allocation by the trader of a particular profit over certain periods of accounts did not necessarily make it a profit, of those periods. The company entered into contracts in March 1914 to supply a number of electric motors complete with control gear, and in April 1914 the company sub-contracted the control gear to another trader, and made a profit thereon of £1,064. The delivery of the motors extended to 1916, and the profit of £1,064 was spread over the accounts covering the period of delivery. It was held that the £1,064 was a profit made in April 1914.

Dependent Relatives.

A correspondent, "J. M. P.," asks if a father who supports an invalid daughter over 21 years of age can claim income-tax relief.

The allowance for a dependent relative applies to an invalid daughter whatever her age if she is maintained by her father.

New Business.

A correspondent, "Depreciation," refers to the case of a limited company which was floated on the 8th August 1914, but, owing to the war, was temporarily closed down on the 8th August 1916. Business was recommenced on the 9th March 1919. Accounts have since been prepared for submission to H.M. Inspector of Taxes, in order to settle the income-tax assessments for 1918-19, 1919-20, 1920-21, and he claims to treat the concern as a new one starting from the 9th March 1919. For the purpose of making the necessary allowances for depreciation of plant and machinery, he claims that depreciation has been running on through the periods when the company was inoperative, and that depreciation since the 9th March 1919 can only be calculated on the written down value as at the 9th March 1919, but he will not allow against the company's assessment the depreciation which he has written off for the period from the 8th August 1916 to 9th March 1919, for the purpose of arriving at the written down value at the 9th March 1919.

The business should not be treated as new, but the assessments should be made on average throughout under *Merchiston Steamship Co. v. Turner*, where a single-ship company, which lost its ship and acquired another at a later date, was held to be assessable on average, not as a new business.

Succession.

"A" (limited company) was carrying on a business of sand and gravel merchants and coal merchants in two separate towns. "A"

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(limited company) contends that the accounts (and probably it was so) were kept separately. The assessments of the business in one town were sold to a private individual, and they consisted of freehold property, plant, tools, stock-in-trade, and £100 paid for goodwill. After "A" (limited company) had sold part of the business, they still carried on the coal and sand trade in the other town for a time as "A" (limited company). They subsequently sold this other part of the business to another company, who contain practically the same people, and utilise part of the same name, so the business in the town was "A. B. & Co. Ltd.," and the "A. & Co. Ltd." simply carried on with their realised assets as an investment company not going into liquidation. The individual who bought the business in the first town contends that he has bought plant, land and stock at a *high figure* from "A. & Co. Ltd.," and at a very much higher figure than appears in the books of "A. & Co. Ltd.," and does not wish to be assessed as a successor to "A. & Co. Ltd." He claims that the profits should be the actual profits made during the period he has held the business, and that *he should be allowed depreciation* on the actual cost of the plant, &c., and he wishes to bring this into his individual business to be assessed accordingly. Please note that the profits have not fallen off, but the point is that if it is brought into his ordinary business he will not have to be assessed on the three years average, and there will be nothing to pay this year, but the money will be brought in next year, and should he be allowed full depreciation on the money he has paid out for plant if he agrees to be assessed as a successor. For some reason or other, the limited company "A." want to insist that the individual should be called successors. Although it may be contended that separate accounts were kept, and that separate figures are available, one cannot be sure that the right amount of expenses were charged against one part of the business, and the other point is: can the Revenue people insist on the private individual being assessed as a successor under these circumstances without allowing him to have full depreciation on amounts paid for plant?

There will be liability this year, whether treated as a succession or not, if the *business* has been taken over. As a succession, the average of "A." Limited would be the basis, and, as a new business, the purchaser would be assessable this year on the profits of this year under Rule 1 of Case 1 of Schedule D. As regards depreciation, the law allows what is "just and reasonable," and that clearly has reference to what the plant has cost the person claiming the depreciation. The profits of this year would only fall into the general profits of the purchaser, and come into subsequent averages if no *business* had been taken over, but e.g. a new branch commenced.

Pensions.

The following extract from an assessment is submitted by "J. H. R.," who asks if his pension for long service in the ranks is chargeable:—

				Profession			Army Pension		
				£	s	d	£	s	d
Amount of Assessment	..	..	..	23	0	0	67	0	0
Less Deductions for:—									
Earned Income		Personal allowance							
(1/10)				£212 10 0					
£23 10 0		12 10 0		23 0 0			12 10 0		
Taxable Income from above sources @				—			54 10 0		
Tax chargeable thereon				—			£8 3 6		

Income Tax Notes and Comments.

There is liability on the pension, as the exemption only extends to disability pensions not to long service pensions.

Schedule A.

The following is submitted by "H. P." :—Property occupied by owner. The return says insert annual value; my tax guide says insert Schedule A assessment (net); a friend says insert amount of Poor Rate Assessment; and amongst the whole of these statements I am getting confused. I understand the Poor Rate assessment to be the rental value arrived at by the Assessment Committee, and that usually this is used for Schedule A. From the gross Schedule A assessment, the Inspector of Taxes deducts one-sixth for repairs to arrive at the net Schedule A on which tax is payable. Is this correct? I also understand that the *annual value* which the return asks for is the same as the net Schedule A assessment, or at least that Schedule A figures could be inserted. If the property were let, I presume the gross rent would be inserted, and that the Inspector would deduct one-sixth for repairs. Schedule B. I presume the amount to be inserted is double the *gross* rent, and that no deduction can be made for rates paid by the tenant, e.g. if a butcher rents land at £100 per annum and pays General District and Poor Rates the amount to be inserted in the return would be £200.

The return should show the net Schedule A assessment, not the Poor Rate. The same course should be followed when the property is let, unless the rent is less than the net Schedule A.

The Schedule B is double the *gross Schedule A*, and the Schedule A is the annual value, assuming the tenant to pay tenant's rates.

Repayment.

It is asked by "Victoria" if the following items are allowable on a repayment claim :—

- (1) Manager's charges for supervising the estate.
- (2) Fire Insurance of property.
- (3) Land Tax.
- (4) Tithes.
- (5) Rent Collector's commission and expenses.
- (6) Repairs.

Many of the properties in the estate are let at rents considerably higher than the net Schedule A assessment, the trustees paying rates and repairs. Presumably in a claim for repayment of tax the net Schedule A assessment would be inserted as the basis of the income, and no other basis would be allowable.

- (1) Not deductible.
- (2) This is covered by the statutory allowance for repairs.
- (3) This is deductible, but is usually already allowed in arriving at the net Schedule A.
- (4) This also is usually allowed in arriving at the Schedule A.
- (5) Not deductible.
- (6) This is covered by the statutory allowance.

The net Schedule A assessments should be shown in the claim.

A claim may also be made for the *actual* repairs, &c., on the average of the five preceding years, when all the above items become allowable.

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Travelling Expenses.

A correspondent "Bolus" asks if there is any relief for income-tax for the following:—

- (1) Expenses incurred travelling to and from a place of employment where the cost is paid by the employee.
- (2) Trade Union contributions and National Health Insurance contributions.
- (1) Only in the case of manual wage earners.
- (2) That portion of a trade union contribution which relates to death benefit is allowable. National Health Insurance contributions are not allowable, neither is any benefit chargeable.

Capital.

It has recently been decided in *Hamar v. Inland Revenue* that capital for Excess Profits Duty purposes must, as required by Part 3 of the Fourth Schedule to the 1915 Act, be taken at cost to the trader. A patent was taken out in 1917 at a cost of £400, and owing to the large profits made, the patent was valued at £6,000. The Court decided that the Excess Profits Duty capital should be £400, not £6,000.

Shipping Companies.

In *Legg & Son, Ltd. v. Inland Revenue*, a ship valued at £15,000 became a total wreck, and the insurance company paid out £8,000, the shipping company having taken the balance of the risk. The Court held that the £7,000 loss could not be charged to revenue, but was a loss of capital.

Speculations.

In *Cape Brandy Syndicate v. Inland Revenue*, about 100 purchases of brandy were made in Africa, and part shipped to the East, the remainder coming to London. It was contended that the profit was only the profit from realisation of a speculative investment, but the Court held that there was liability to Excess Profits Duty.

Queries and Replies.

(Correspondents who wish to make use of this column are requested to write their queries on one side of the paper only and to be as brief as possible. There is no need to enclose a covering letter if the communication is headed "Accountants' Journal, Queries and Replies column," and signed at the end with the name and address of the sender, which will not be published if the query is signed with a nom de plume.)

Rent Restrictions Act, 1920.

A landlord owns a dwelling-house on the main road in a colliery district, the front room is let to a "barber" at a rental of £2 per month. The landlord is responsible for all repairs, rates, &c. I beg to point out that the landlord occupies the remaining parts of the house. This room was let on the 3rd of August 1914 at the same rental of £2 per month. The rateable value of the whole premises is £8 10s., amount of rates for half-year ending October 1914 £2 15s. 7d., amount of rates for half-year ended May 1920, £5 5s. I shall be pleased if you could inform me whether the above case is protected by the Rents Restrictions Act, 1920; if so, how may the rent be increased, and by how much?—PUZZLED TREHERBERT.

Landlord must be in a position to regain possession of the property, which he cannot do until the existing agreement has expired, and in the case mentioned probably giving a month's notice.

Any increase (proportionately) on any raising of the rates, i.e. the rental which the property was let as on 3rd August 1914, or if unlet then at the rental obtained at the first subsequent letting. This rent does not include rates.

The *Standard* rent must be ascertained from the landlord, who may then raise the rent to not exceeding 30 per cent.*

If landlord has expended any money on structural alterations, he can charge an additional rent amounting to 6 per cent. on expenditure prior to 2nd July 1920, and 8 per cent. on subsequent expenditure.

Any increase (proportionately) on any raising of the rates.

Receipt on Cheque.

A cheque is payable to A. B. C. or order, and crossed — & Co. on the back is a form of receipt, and a note to the effect that the cheque also requires endorsement. A. B. C. endorsed the cheque and handed it to D. E. F., who signed the receipt over a 1d. stamp, and paid cheque in to their account. The drawers knew that the cheque was to be given to D. E. F. The bankers returned the cheque, and required A. B. C. to

* i.e. the rental which the property was let as on 3rd August 1914, or, if unlet, then at the rental obtained at the first subsequent letting. This rent does not include rates.

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sign the receipt also. Was the bank in order in returning the cheque, which was duly endorsed? What is the effect of a Receipt Form on a cheque?—G. S. D.

If you refer to the article on Banking Notes in *The Accountant* for 9th October, you will see that the question of receipts on cheques is specially dealt with. Failing any definite instructions to the bank on the face of the cheque, we think that *legally* the bank could not refuse payment, but as a matter of commercial practice, banks usually require the receipt to be signed by the *payee*, as it is a check upon the instrument falling into the hands of some other person who might fraudulently sign the receipt and cash the cheque.

Annuities.

What is the position of an annuitant if the person who has contracted to pay the annuity is adjudged bankrupt? Suppose that the annuity was £100 per annum, payable quarterly, and that on the appointment of a trustee payment was one quarter in arrear, for what amount is the annuitant entitled to prove, and what is his position with regard to other creditors?—HARMIC.

The annuitant is in the position of being able to prove as an unsecured creditor for the overdue portion of the annuity (*re Batey*), and also for the capitalised value of the future payments of the annuity as ascertained by actuarial calculations (*Beecham's case*).

Stamp Duty on French Cheque.

What is the correct stamp duty on a cheque drawn in London on a French bank and payable to a person resident in France? I refer to a cheque that is dated "Londres, Octobre 20 1920," and not to one dated "Paris, Octobre 20 1920."

1. *Is the French duty sufficient, or should the cheque bear the English stamp in addition?*
2. *Does the same law govern a foreign cheque as governs a foreign bill of exchange?*
3. *Can you quote an authority?*

SUBSCRIBER.

A cheque drawn on a French bank and payable in France, whether a branch establishment of an English company or not, only requires the stamp necessary by French law, which is 10 centimes. This is our actual experience, and we think, therefore, no further authority need be quoted.

Partners' Income Tax.

A. and B. are equal partners at 31st December 1918, and agree to admit C. on 1st January 1919, the new basis of distribution of profits being two-fifths, two-fifths, and one-fifth for A., B., and C. respectively. In the Trial Balance of 31st December 1919 there was a debit "Income-tax 1919-20, 1st Instalment." Should this item be debited to Profit and Loss Account, or to A. and B. drawings, or to A., B., and C. in proportion to their respective liabilities after adjustment of abatements, &c.?—TIM.

Although it is the common practice to debit the income-tax to Profit and Loss Account, and afterwards adjust the proportions payable by each partner in view of the fact that income-tax is not

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an allowable charge against profits in ascertaining the assessable profits of the firm, it would seem to be preferable to charge the appropriate amounts to the debit of the individual partners' (i.e. A. and B.) Capital or Current Accounts, after taking into consideration any abatements and allowances applicable. The incoming partner C. would probably not be liable in respect of this tax, the assessment being made upon the average of the three years preceding his entry into the firm, and if he had been carrying on business himself before entering the partnership, his assessment would be upon the average of three preceding years profits of his own business. If, on the other hand, he was *not* carrying on business before 1919, then he would share the tax proportionately with A. and B.

Use of word "Limited."

Can you inform me whether it is legal for a concern to trade under a name ending with the word " Limited," if, in fact, it is not registered as a limited company? If so, I presume such a concern would have to register under the Registration of Business Names Act, and disclose the names of its proprietors on its stationery.—C. P. R.

If any person or persons trade or carry on business under any name or title of which *Limited* is the last word, that person or those persons shall, unless duly incorporated with limited liability, be liable to a fine not exceeding £5 for every day upon which that name or title has been used. Section 282 of the Companies (Consolidation) Act, 1908. It follows, therefore, that it would not be possible to register a trade name ending with the word " Limited " under the Registration of Business Names Acts, 1916.

Monthly Calendar.

December 1st, Wednesday.—GLASGOW CHARTERED ACCOUNTANTS STUDENTS' SOCIETY.—Lecture, "The Finance Act, 1920," by Mr. William Anderson, C.A., 7.30 p.m., in the Accountants' Hall, 218 St. Vincent Street, Glasgow.

INSTITUTE OF COST AND WORKS ACCOUNTANTS.—Lecture, "The Influence of Production Costs on Designing," by Mr. F. W. Pitt, A.M.I., Mech.E., M.I.A.E., 7 p.m., at the Hall of the Institute of Patent Agents, Staple Inn Buildings, Holborn, W.C.

LEICESTER CHARTERED ACCOUNTANTS STUDENTS' SOCIETY.—Lecture, "Principles of Economics," by Rev. R. F. Rattray, M.A., Ph.D., 6.30 p.m., at 4 New Street, Leicester.

LONDON INCORPORATED ACCOUNTANTS STUDENTS' SOCIETY.—Lecture, "The Liabilities of the Profession for Negligence," by Mr. W. Norman Bubb, F.S.A.A., 6.30 p.m., at 50 Gresham Street, E.C. 2.

SHEFFIELD CHARTERED ACCOUNTANTS STUDENTS' SOCIETY.—Lecture by Mr. G. H. Knighton, F.C.A., 6.45 p.m., at the Library, Hoole's Chambers, Bank Street, Sheffield.

December 2nd, Thursday.—LEEDS AND DISTRICT CHARTERED ACCOUNTANTS STUDENTS' ASSOCIATION.—Lecture, "Coal Mines Computations," by Mr. A. Dobson, A.C.A., 6.30 p.m., at 7 Bond Place, Leeds.

December 3rd, Friday.—BIRMINGHAM CHARTERED ACCOUNTANT STUDENTS' SOCIETY.—Lecture, "The Functions of Costing," by Mr. E. W. Newman, A.C.A., 6.30 p.m., at 8 Newhall Street, Birmingham.

December 6th, Monday.—BIRMINGHAM AND MIDLAND SOCIETY OF INCORPORATED ACCOUNTANTS AND AUDITORS AND STUDENTS' SOCIETY.—"Statistics," by Mr. A. P. Bardell, A.S.A.A.

CORPORATION OF INSURANCE BROKERS, METROPOLITAN AND HOME COUNTIES DISTRICT COMMITTEE.—Lecture, "Office Organisation," by Mr. E. E. B. Eldridge, F.S.S., A.I.A., A.C.I.I., 8 p.m., at the Connaught Rooms, London, W.C.

December 7th, Tuesday.—LONDON INCORPORATED ACCOUNTANTS STUDENTS' SOCIETY.—Lecture, "Recent Developments in Income-Tax Law," by Mr. W. E. Snelling, 6.30 p.m., at 50 Gresham Street, E.C.

NOTTINGHAM CHARTERED ACCOUNTANTS STUDENTS' SOCIETY.—Debate, Chairman, Mr. E. H. Palmer, A.C.A.

INSTITUTE OF INDUSTRIAL ADMINISTRATION.—Lecture, "Road Transport as an Aid to Industrial Management," by Mr. Richard Twelvetrees, M.I.Mech.E., 7 p.m., in Conference Hall, Central Hall, Westminster.

December 8th, Wednesday.—BRISTOL CHARTERED ACCOUNTANTS STUDENTS' SOCIETY.—Lecture, "The Detection of Fraud in Accounts," by Mr. F. R. M. de Paula, O.B.E., F.C.A., 5.30 p.m., in The Library, Albion Chambers, Bristol.

GLASGOW CHARTERED ACCOUNTANTS STUDENTS' SOCIETY.—Joint meeting with Glasgow Juridical Society, 7.30 p.m., at Accountants' Hall, 218 St. Vincent Street, Glasgow.

LEICESTER CHARTERED ACCOUNTANTS STUDENTS' SOCIETY.—Lecture, "Capital: What it is and What it Does," By Mr. P. D. Leake, F.C.A., 6.30 p.m., at 4 New Street, Leicester.

LONDON CHARTERED ACCOUNTANT STUDENTS SOCIETY.—Annual Dinner 7 p.m., at Connaught Rooms, Kingsway, London, W.C.

SHEFFIELD CHARTERED ACCOUNTANTS STUDENTS' SOCIETY.—Discussion on the November 1920 Examinations of the Institute, 6.45 p.m., at The Library, Hoole's Chambers, Bank Street, Sheffield.

YORKSHIRE DISTRICT SOCIETY OF INCORPORATED ACCOUNTANTS.—Lecture, "The Trustee in Relation to the Property of the Debtor," by Dr. D. F. de l'Hoste Ranking, M.A., LL.D.

Monthly Calendar.

- December 9th, Thursday.*—LIVERPOOL CHARTERED ACCOUNTANTS STUDENTS' ASSOCIATION.—Mock Shareholders Meeting, 5.30 p.m., at 13 Union Court, Liverpool.
- December 10th, Friday.*—BIRMINGHAM CHARTERED ACCOUNTANT STUDENTS' SOCIETY.—Lecture, "Contract, Acceptance, Revocation by Post and Otherwise," by Mr. A. R. Churchill, B.A., LL.B., 6.30 p.m., at 8 Newhall Street, Birmingham.
- SOUTH OF ENGLAND DISTRICT SOCIETY OF INCORPORATED ACCOUNTANTS.—Lecture, "Appointment in Relation to Executorship Accounts," by Mr. W. H. Grainger, A.S.A.A.
- December 13th, Monday.*—BIRMINGHAM & MIDLAND SOCIETY OF INCORPORATED ACCOUNTANTS & STUDENTS' SOCIETY.—Lecture, "Branch Accounts, Home and Foreign," by Mr. A. C. Ridgway, F.C.A., at The Library, County Chambers, Corporation Street, Birmingham.
- MANCHESTER CHARTERED ACCOUNTANTS STUDENTS' SOCIETY.—Lecture, "Periodical Financial Cost Returns," By Mr. H. Julius Lunt, A.C.A., 6 p.m., at 60 Spring Gardens, Manchester.
- WEST OF ENGLAND DISTRICT SOCIETY OF INCORPORATED ACCOUNTANTS.—Lecture, "The Cost of Government," by Mr. Hubert Phillips, B.A., 5.30 p.m., at The Royal Hotel, College Green, Dublin.
- YORKSHIRE DISTRICT SOCIETY OF INCORPORATED ACCOUNTANTS.—Lecture, "Economics: The Bank of England, Its Relationship to the State, the Public, and other Banks," by Mr. H. Watson.
- December 15th, Wednesday.*—BRISTOL CHARTERED ACCOUNTANTS STUDENTS' SOCIETY.—Lecture, "A Few Practical Hints to Articled Clerks," by Mr. A. J. Foster, F.C.A., 5.30 p.m., at The Library, Albion Chambers, Bristol.
- GLASGOW CHARTERED ACCOUNTANTS STUDENTS' SOCIETY.—Lecture, "A Few Notes on Company Liquidations," by Mr. John T. Rankin, C.A., 7.30 p.m., at 218 St. Vincent Street, Glasgow.
- LEICESTER CHARTERED ACCOUNTANTS STUDENTS' SOCIETY.—Lecture, by Mr. R. V. Rodwell, A.C.A., 6.30 p.m., at 4 New Street, Leicester.
- SHEFFIELD CHARTERED ACCOUNTANTS STUDENTS' SOCIETY.—Informal Debate, 6.45 p.m., at Hoole's Chambers, Bank Street, Sheffield.
- December, 16th, Thursday.*—LEEDS AND DISTRICT CHARTERED ACCOUNTANTS STUDENTS' ASSOCIATION.—Lecture, "Parliamentary Law," by Mr. J. H. Bromley, 6.30 p.m., at 7 Bond Place, Leeds.
- NOTTINGHAM CHARTERED ACCOUNTANTS STUDENTS' SOCIETY.—Lecture, "National and Industrial Finance Contrasted," by Mr. A. F. Dodd, F.C.A., 6.15 p.m., at Victoria Station Hotel, Nottingham.
- KINGSTON-UPON-HULL CHARTERED ACCOUNTANTS STUDENTS' SOCIETY.—Lecture, "Bankruptcy," by Mr. H. H. Sanderson, 6.30 p.m., in Incorporated Law Society's Hall, Bowlalley Lane, Hull.
- December 17th, Friday.*—SOUTH WALES AND MONMOUTHSHIRE CHARTERED ACCOUNTANT STUDENTS' SOCIETY.—Ten Minutes Papers, 7.30 p.m., at 5 High Street, Cardiff.
- December 20th, Monday.*—BIRMINGHAM & MIDLAND SOCIETY OF INCORPORATED ACCOUNTANTS AND STUDENTS' SOCIETY.—Lecture, "Economics," by Mr. A. P. Bardell, at The Library, County Chambers, Corporation Street, Birmingham.
- December 21st, Tuesday.*—INSTITUTE OF INDUSTRIAL ADMINISTRATION.—Informal Meeting, Discussion on the Standardisation of Rate-Fixing Methods. Opener, Mr. J. E. Powell, 7 p.m., at 110 Victoria Street, S.W. 1.

Legal Notes.

By Albert Crew, Barrister-at-Law.

An up-to-date knowledge of recent decisions in the Courts is of the greatest value to accountants and business men and to students reading for their examinations. In this column are noted the salient features of the leading cases decided during the preceding month.

Bailment.

Goods Sent to Tradesman for Work to be Done.

Plaintiff left with the defendant 70 marten skins for the purpose of being made into a coat and a muff. The defendant notified that the articles were ready, but owing to a railway strike the plaintiff was unable to come to fetch them, and they were left in the defendant's care. Later, the coat was stolen from a glazed case in the defendant's showroom by two expert women shoplifters, who managed to get the saleswoman out of the room by means of a trick. The shoplifters were afterwards arrested, and convicted of stealing the plaintiff's coat. It was held that the defendant was guilty of negligence, which made him answerable as a bailee for reward. Where goods are sent to a tradesman to exercise his skill upon them, his duties as bailee do not cease as soon as his work is done. Until the parties have shown, either by express words or by conduct, that they intend to alter the original relationship between them, that relationship continues. *Mitchell v. Davis* (1920, 37 T.L.R. 68).

Bills of Exchange.

Fraudulent Cheques. Proceeds Paid to Third Person.

The defendant H. had obtained sums amounting to £6,680 from the plaintiff bank by means of fraudulent cheques purporting to be drawn by one P., a customer of the bank. The fraud was discovered, and H. sentenced to penal servitude. Most of the money so obtained by H. appeared to have been given by him to his mistress S., who paid the cheques into her own banking account with a London bank. There was, when S. was sentenced, at her bank £315 balance of a large cheque given her by H., and the London bank was ordered to pay that sum into Court, it having been claimed by the plaintiff bank. As to this, the Court of Appeal, while holding that it had been received by S. without guilty knowledge, gave judgment for the plaintiff bank upon the ground that there was no consideration other than an immoral one. and, therefore, as in the circumstances it was clearly the proceeds of the fraud committed by H., the bank could recover it as money had and received by S. to their use. *Banque Belge Pour L'Etranger v. Hambrouck & Spanoghe* (1920, 65 S.J. 74).

Companies.

Alteration of Memorandum and Re-organisation of Capital.

The memorandum of association of a company provided that the share capital of the company was £5,000, divided into ordinary and deferred shares. The company being desirous of re-organising its share capital, the holders of the deferred shares surrendered these shares to the company, and the company passed a special resolution provided that the clause in the memorandum relating to share capital should be deleted, and that in lieu thereof there should be substituted the following clause:—"The share capital

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of the company is £5,000, divided into 5,000 ordinary shares of £1 each." The company presented a petition praying the Court to confirm the alteration of the provisions of the company's memorandum of association. It was held that the prayer of the petition should have been for confirmation of the special resolution altering the memorandum, and not for confirmation of the alteration, and that the company had not yet passed a resolution consolidating the ordinary and deferred shares into one class, and that such a resolution ought to have been passed before the resolution to alter the memorandum was adopted. *The Scottish India Rubber Co., Ltd.* (1920, S.C. 1).

Authority of Directors to draw Bills of Exchange.

A Bill of Exchange was drawn on behalf of a company by the managing director and one director and the secretary, and was accepted by the secretary. These persons had, in fact, no authority to draw or accept bills on behalf of the company. The bill came into the hands of a holder in due course, and was dishonoured. Under the articles, the managing director might have been authorised to draw and accept bills. It was held that inasmuch as the managing director could have been authorised, under the articles to draw and accept the bill, a holder was entitled to assume that he had authority, and was not bound to inquire into the internal management of the company, or to prove an actual authority. The word "authority" in Section 77 of the Companies (Consolidation) Act, 1908, includes express or implied authority, and no inference is to be drawn from the omission of the words *express or implied*. The juxtaposition of Sections 76 and 77 in the Act of 1908 is accidental, and no point can be made of the different wording of the two sections. *Dey v. Pullinger Engineering Co.* (1920, 37 T.L.R. 10).

Winding-up; Arrears of Dividend on Preference Shares. No Profits Earned.

The capital of a company consisted of £8,500 divided into 6,900 preference shares and 1,600 ordinary shares of £1 each. Holders of preference shares were entitled to receive out of the profits as a first charge a cumulative preferential dividend at the rate of 10 per cent. per annum, and in the event of the winding-up of the company to have the surplus assets applied: (1) in paying off the capital paid up on the preference shares, (2) in paying off the arrears of preferential dividend to the commencement of the winding-up, and thereafter to participate rateably with the holders of other shares in the residue of surplus assets. No profits were ever earned by the company, and no dividends were declared on either class of share since its incorporation. The liquidators had in hand a sum of £5,000 available for distribution among the members in accordance with their rights. It was held that there were arrears of dividend, although there were no profits out of which they could have been paid, and that the surplus assets in the winding-up must be charged, not only with the capital of the preference shares, but also with the arrears of the 10 per cent. preference dividend down to the commencement of the winding-up. *In re Springbok Agricultural Estates* (1920, 89 L.J. Ch. 362).

Contract.

Sale of Goods. Stipulation as to Mode of Packing.

By a contract to buy canned fruit in tins, to be paid for in dozens, it was stipulated by the buyers, Moore & Co., that the delivery was to be in cases about 30 tins each. In breach of this stipulation, about half the consignment was tendered packed in cases containing 24 tins only. The dispute having been submitted to arbitration, the umpire found that this did not affect the market value of the consignment, and gave an award in favour of the sellers, subject to this case. It was held by Rowlatt, J., that the buyers were entitled to reject the goods. They might have their reasons for preferring to have their goods packed in a particular way, and speculation on the effect of the wrong packing in the trade was not possible. The buyers were not bound to accept that part of the consignment which had been properly packed. They would clearly have been entitled under Section 30 (1) of the Sale of Goods Act,

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1893, to reject that part if only that part had been delivered as being a quantity less than the sellers had contracted for within the sub-section, and because that part was accompanied by something else, not in the contract, they were not bound to accept that part. *Moore & Co. v. Landaner & Co.* (1920, W.N. 346).

Frustration of Contract. Non-Manufacture.

In a contract for the sale of unascertained goods of a specified brand and of a particular year, the sellers cannot, in the absence of a particular special stipulation, set up as a frustration of the contract the non-manufacture of such goods in the year in question. In an action by the buyers for breach of a contract for the sale of so many tons (5 per cent. more or less), the damages are calculable with reference to the difference between the number of tons delivered and the number of tons contracted for less 5 per cent., as the Court will not go into the question whether the margin of 5 per cent. was intended only to cover inadvertent deficiency or over delivery. *Thornett & Fehr v. Yuills* (1920, 37 T.L.R. 31).

Frustration of a Contract.

The doctrine of frustration of a contract applies only where an implication of law must of necessity be introduced into the contract, and it never applies where the contract contains a clause actually providing for the precise state of affairs which is relied on as producing frustration. *Banck v. Bromley* (1920, 37 T.L.R. 71).

General Authority to an Agent to Find a Purchaser.

A general authority to an agent to find a purchaser of a house does not authorise the agent to sign a contract binding on the vendor. There must, to justify such a signing, be a special and express authority to sign. *Lewcock v. Bromley* (1920, 37 T.L.R. 48).

Contract Subject to Preparation of Formal Contract.

The plaintiff wrote to the defendant's agents, offering to buy a leasehold property, saying, "I am prepared to pay £75,000 on signing of formal contract," and adding: "This offer is subject to formal contract to embody such reasonable provisions as my solicitors may approve, and to the lease containing no unusual provisions or covenants." The defendant's agents wrote in reply accepting the offer, and saying that they would communicate with the defendant, so that he might instruct his solicitors to prepare formal contract. The defendant subsequently refused to proceed further with the matter. In an action for specific performance it was held that the effect of the letters was that the offer was conditional, and that the parties were not bound until a formal contract had been signed, and therefore the action failed. *Rossdale v. Denny* (1920, 37 T.L.R. 45).

The Sale of Milk. Minute Quantity of Foreign Matter Present.

When new milk of good quality is asked for by a purchaser, and the milk sold contains foreign matter in a quantity so minute that its presence is unavoidable, it is open to the justices, if the milk complies with the regulations in other respects, to hold that the vendor has not committed the offence against Section 6 of the Sale of Food and Drugs Act, 1875, of selling an article of food not of the nature, substance, and quality demanded. *Kenny v. Cox* (37 T.L.R. 49).

Hot Milk and Adulteration Previous to Heating.

When a purchaser asks for hot milk at a restaurant, and is supplied with adulterated milk which has been heated, the fact that it was hot milk, and not merely milk that was asked for, will not save the vendor from committing the offence against Section 6 of the Sale of Food and Drugs Act, 1875, of selling an article of food not of the nature, substance, and quality of the article demanded. *Herrington v. Slater* (1920, 37 T.L.R. 51).

Legal Notes.

Corporation.

Proposal to do Ultra Vires Acts.

If a corporation established by Royal Charter intends to do acts not authorised by its Charter, a member is entitled to ask for an injunction restraining the commission of acts which are outside the scope of the Charter, and which might result in its forfeiture and the destruction of the corporation. *Jenkin v. Pharmaceutical Society of Great Britain* (1920, 37 T.L.R. 54).

Gaming.

Publication of Lottery Scheme.

Where a person gives a printer a draft scheme for the sale of tickets in a sweepstake in order that it may be printed and sent through the post, and when the printer prints it, the publication to the printer is sufficient to support a conviction under Section 41 of the Lotteries Act, 1823, for publishing a scheme for the sale of tickets in a lottery. *Dew v. Director of Public Prosecutions* (1920, 37 T.L.R. 22).

Insurance.

A marine insurance policy on goods and freight valued at £26,025 contained the clause "Claims, if any, to pay at the rate of \$4.15 to £1 sterling." It was held that the clause was not to convert the policy from a sterling into a dollar policy, but only to fix a rate of exchange independently of the fluctuations of the market. *Howard, Holder & Partners v. Union Marine Insurance Co.* (1920, 37 T.L.R. 32).

Landlord and Tenant.

Rent Restrictions Acts. Exercise of Powers of Court.

Section 5 (3) of the Increase of Rent, &c. (Restrictions) Act, 1920, which gives the Court power to rescind or vary an order for possession where, in the opinion of the Court the order would not have been made if the Act had been in force, does not impose an absolute obligation to rescind or vary the order in such a case, but merely gives a discretion to re-open the matter when the Court thinks this course to be desirable. *Taylor v. Faires* (1920, 37 T.L.R. 55).

Tenancy from Year to Year.

It is not repugnant to the nature of a tenancy from year to year to include a provision that it be determinable by a notice to quit less than six months in length; or by notices to quit by the landlord and tenant respectively, which are unequal in length; or by notice to quit by either party, and also in some other way depending upon the discretion of one of the parties only, e.g. on the sale of the premises by the landlord. *Allison v. Scargall* (1920, 3 K.B. 443).

Tenant Holding Over.

When a tenant of a house to which the Increase of Rent, &c. (War Restrictions) Acts apply holds over after the expiry of a notice to quit, and pays rent, the landlord is not to be taken, by accepting it, to assent to a renewal of the tenancy on the old terms, for he has no choice but to accept the rent; he could not sue in trespass for mesne profits, for those Acts provide that the tenant, notwithstanding the notice to quit, shall not be regarded as a trespasser, so long as he pays the rent and performs the other conditions of the lease. *Davies v. Bristow; Penrhos College v. Butler* (1920, 3 K.B. 428).

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Negligence.

Worn Steering Gear and Liability to become Uncontrollable.

A motor-car which has its steering gear, by reason of wear, in such imperfect condition that the driver is liable to lose control of the steering, is a thing which on a highway is necessarily dangerous to persons using the highway, and to cause it to be driven on a highway amounts to negligence even in the absence of knowledge of the defect. *Hutchins v. Maunder* (1920, 37 T.L.R. 72).

Trade Union.

Expulsion from Union and Inducement to Employer to Break Contract.

The plaintiff having been expelled from his trade union, the fact that he was a non-member was communicated to his employer with a note that union members in the same employ would refuse to work with the plaintiff, in consequence whereof the plaintiff was dismissed from his employment. It was held that inducement not to continue an employment is only illegal if it is exercised by illegal means. An application for an injunction to restrain the union from interfering with the plaintiff's right to dispose of his labour as he would therefore failed. *Wolstenholme v. Avis* (1920, 2 Ch. 403).

Wills and Executors.

General Charitable Intention.

The Court of Appeal, in *re Willis* (1920, 2 Ch. 358) (noted in November 1920 *Accountants' Journal*, page 418), reversed the decision of Astbury, J. They held that the testatrix had by her will shown a general charitable intention notwithstanding the discretion conferred by her upon W. and the limit of time imposed for its exercise, and that the gift of the residue in favour of charity was, therefore, valid. The fact that W. was not a trustee or executor did not affect the matter. *Moggridge v. Thackwell* (1803, 7 Ves. 36), and *Mills v. Farmer* (1815, 1 Mer. 5), applied. *In re Willis* (1920, W.N. 334).

Subsequent Legislation Affecting Interest of Beneficiaries.

A clause whereby a testator provides that the interest of certain beneficiaries under the will shall, in the event of their being precluded by legislation from taking such interest, go over to other persons, is not void as being against public policy. *In re Schiff* (1920, 37 T.L.R. 31).

Construction of "Residue of my Property."

A testatrix, by a holograph will, after leaving certain pecuniary legacies and bequests of furniture and effects, made this further provision: "To my 'dear friend, Miss A. C., for the kindness she has shown to me, I leave the 'residue of my property.'" By a codicil she made further bequests of specific articles, and appointed trustees and an executor. The pecuniary legacies amounted to £510, the movable property amounted to £266 18s., of which £110 19s. represented furniture and effects which she had specifically bequeathed. She also left heritage consisting of a house of the value of £900. She was aware of the amount of her movable estate. It was held that the testatrix had intended to dispose of, and had effectually disposed of her heritable as well as her movable property. *Craw's Trustees v. Blacklock* (1920, S.C. 22).

General Power of Appointment given to Nephew Predeceasing Testatrix.

Testatrix bequeathed a legacy upon the ordinary trusts for a nephew for life, and after his death for his children, and failing children (as happened)

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upon trust for such persons as he should, by will or codicil, appoint, and she provided that, in case the nephew should predecease her, the legacy "should be held upon the same trusts, and subject to the same powers and provisions so far as capable of taking effect as if" the nephew "had died immediately after me." The nephew died in the lifetime of the testatrix, having by his will given unto his wife "all property and effects, real and personal, which may now, or at any time hereafter belong to me." It was held that Section 27 of the Wills Act, which provides that a general gift shall include real or personal estate over which the testator has a general power of appointment, only relates to such general powers of appointment as the testator possesses at the time of his death, and that as the nephew never became donee of the power attempted to be given to him by the will of the testatrix, on the hypothesis of his surviving her, the general bequest of personal estate contained in his will did not operate to exercise the power. *In re Young* (1920, 2 Ch. 427).

Gift over on Death if then Mentally Unfit to Manage.

A gift over by will of real and personal property in the event of the original absolute donee dying mentally unfit to manage his own affairs, is repugnant and void as tending to contravene the law by providing a different devolution of the property from that prescribed by law in the event of an absolute owner dying intestate. *In re Ashton* (1920, 2 Ch. 481).

Students' Society Notes.

The Chartered Accountant Students Society of London.

The Society's Coaching Classes for the May 1921 Examinations are arranged to commence on Monday, 13th December.

The Legal subjects will be undertaken by Mr. Herbert Jacobs, B.A., Barrister-at-Law, assisted by Mr. Sydney E. Pocock, LL.B., Barrister-at-Law.

The Accountancy Classes will be conducted by Mr. F. R. M. de Paula, O.B.E., F.C.A. (Lecturer on Accountancy at the London School of Economics), with the assistance of Mr. William E. E. Newman, A.C.A.

At the May 1920 Examinations of the Institute, every candidate who entered from the Society's Classes passed, including 2nd place in Honours; in the Intermediate, 80 per cent. were successful, including 3rd place.

The Society's Classes, being restricted in size, ensure individual tuition to each student; every candidate is provided with specimen answers and references to text-books in the case of all written work. Concise notes, in printed form, on the legal questions of the Examinations can be obtained, thus saving a considerable amount of time in class. A special feature is made of Costings, Income Tax, Excess Profits Duty, &c.

The fees for the full course in all subjects are : Intermediate, £12 12s. ; Final, £15 15s.

Full particulars of prizes offered by Sir William Plender, G.B.E., F.C.A., and the Society, and any further information or advice that may be required can be obtained on application to the Secretary.

The Examinations in connection with the Free and Advanced Classes will be held at the Hall of the Institute in December as follows :—

December 14th.—Elementary Law Examination, at 6 p.m.

December 15th.—Elementary Accounts Examinations, at 6 p.m.

December 16th.—Advanced Accounts Examination, at 6 p.m.

December 17th.—Advanced Law Examination, at 6 p.m.

The Sixteenth Annual Dinner of the Society will be held at the Connaught Rooms, Kingsway, W.C., on Wednesday, 8th December, at 7 for 7.15 o'clock p.m. The price of tickets is 12s. 6d. each, exclusive of wines. The names of the distinguished guests who have promised to attend are announced in *The Accountant*.

Members are reminded that their subscriptions fall due on the 1st January next, and that in accordance with the alteration in the Rules made at the Annual General Meeting on 30th June 1920, the rates of subscriptions, &c., will be as follows :—

	£	s.	d.
Honorary members who have been in practice three years or more	1	1	0
Other honorary members	0	10	6
Ordinary members	1	1	0

Chartered Accountants Students' Society of Kingston-upon-Hull.

The Society held a very successful first meeting on Tuesday, 19th October. Tea was provided, at the invitation of the Committee, at the De La Gole Café, being followed by a lecture on "Banking" by Mr. G. B. Outhwaite (of the London City & Midland Bank, Ltd.).

A lecture on "The Duties of a Company Secretary," by Mr. Percy Davie, A.C.A., had been arranged for this date, but unfortunately Mr. Davie was unable to be present owing to the industrial situation. Arrangements have been made to include Mr. Davie's lecture in the Spring Session.

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The Society was indeed fortunate, under the circumstances, in securing the services of so able and interesting a lecturer as Mr. Outhwaite.

The lecturer traced the growth of banking from its inception to the present date, showing how important a part the Bank of England plays in matters financial.

After this résumé a few minutes were devoted to Bills of Exchange, the lecture being brought to a close with some notes on Cheques, their use and abuse.

The second meeting of the session was also well attended, Mr. G. W. Vivian, A.C.A., an old member of the Society, reading a paper on "Personal Taxation, Returns, and Claims." The lecturer illustrated his paper by examples on the blackboard and was particularly interesting and instructive in his treatment of the modifications of the new Finance Act.

A hearty vote of thanks in each case was accorded to the lecturer for his services.

It is with deep regret that we have to record the death of Mr. W. Ernest Scott, A.C.A., of this Society. Mr. Scott was an old member of the Society and was held in high esteem by all with whom he came into contact, both in his private and professional life.

Nottingham Chartered Accountants Students' Society.

The fourth meeting of the above-named Society took place on Wednesday, 3rd November 1920, at the Victoria Station Hotel, Nottingham, Mr. C. R. Sands, A.C.A., in the chair.

Motion.—"That this house would favour the introduction of a Whitley Council to the profession."

Mr. Fitzpatrick, A.C.A., in proposing the motion dealt briefly with the constitution and functions of a Whitley Council, and, at the outset, reminded his hearers that the decisions of such a Council were not binding by any Act of Parliament or in a Court of Law, and depended for their force on the goodwill of the parties represented thereon. After an interesting talk on the subject from the economic and historical point of view, Mr. Fitzpatrick gave the meeting what he considered was the crux of the whole situation. He said it would be granted that there was discontent in the profession and suggested that, instead of waiting for an upheaval, the members of the profession should take the means afforded by the Whitley Council and meet the clerks and assistants on the Council and settle those differences amicably.

Mr. Sargeant, in opposing, read several extracts from an official publication by the Ministry of Labour on the subject, by which he sought to prove that the time was not yet ripe in the profession, and that, moreover, the Whitley Councils were only workable in trades or professions where both sides were well organised. He endeavoured to show that recent events in the labour world proved that conferences of this nature, between employers and employed, did not produce harmony, but exactly the reverse, and asserted that the formation of Whitley Councils would not improve the relationship between the accountant and his clerks.

Mr. Forrest, in seconding the resolution, dealt more fully with the scheme of the Whitley Council, and, particularly, with "grading," contending that a workable system of grading could be found, and asserting that the minimum wage clause in such a system and the chance of earning more than the minimum by application and diligence would have very beneficial effects, both from the point of view of the employers and employed.

Mr. Clarke, in opposition, dealt mainly on the good relations subsisting generally between employers and employed and deplored any "washing of dirty linen" in public.

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The discussion was continued by a great many of the students present, and, on the motion being put to the meeting, it was carried by one vote.

A vote of thanks to the chairman and to the openers and seconders brought the first debate of the session to a close.

Sheffield Chartered Accountants Students' Society.

Our syllabus is now ready; the following lectures have been arranged in addition to those published last month.

Dec. 1.—Lecture by Mr. G. H. Knighton, A.C.A. (subject to be announced later).

Dec. 8.—Discussion on November 1920 Examination Papers of the Institute.

The following meetings have already been held:—

Oct. 13.—Ten Minute Papers by the following members:—

Mr. F. Downing on "A. & B. Contributories in Winding Up."

Mr. W. E. R. Short on "The Corporation Profits Tax."

Mr. T. D. Cockerill on "Receivers."

Mr. A. J. R. Slaney, A.C.A., on "Excess Profits Duty."

All the lecturers dealt with their subjects in a very lucid manner and much valuable information was gained.

Oct. 20.—"The Consolidation and Alteration of Share Capital" was the subject of a somewhat intricate lecture by Mr. H. Wells-Smith, F.C.A., who dealt with the matter by giving examples which were somewhat analogous to those which he had actually handled in practice.

Oct. 27.—"The Accountant and Finance," by Mr. A. Lester Boddington, A.C.A. The lecturer, in expounding this somewhat complicated subject, held all his hearers in rapt attention by his eloquent style, brightened by subtle witticisms. He pointed out the necessity of every accountant following the trend of finance and the money market in general through the medium of bankers' clearing house returns, railway returns, and the condition of foreign exchanges. The inflation of credit and currency and its effects upon world and domestic finance were dealt with by the speaker. We sincerely hope that Mr. Boddington will fulfill his promise and give us the pleasure of welcoming him amongst us again.

Nov. 3.—"The Formation of a Public Limited Company from an Accountant's Point of View," by Mr. Stanley Blythen, O.B.E., F.C.A. The lecturer's remarks, which were very apt, having regard to present-day issues of capital, were heartily welcomed by members, particularly by junior students, for whose benefit the lecturer gave the elementary principles.

Nov. 10.—Discussion on May 1920 Examinations. On this occasion our thanks are due to the chairman, Mr. H. C. Nicholson, A.C.A., for his capable handling of the meeting and his appreciation of the wants of students.

Nov. 17.—"Annuities and Sinking Funds," by Mr. W. R. Moore, F.C.A.

Reports of the above lectures have been forwarded to the Editor of the *Journal* for publication and will be published in due course.

We are glad to state that our challenge in last month's issue to a game of "soccer" has been seized upon by the Nottingham Society, who, perchance, see visions of defeating us in the physical if not in the intellectual sphere. We hope these visions will vanish even as dreams at the first glimpse of dawn.

South Wales and Monmouthshire Chartered Accountant Students' Society.

The winter session has commenced well. At the opening meeting on 28th October there was almost a full attendance of members and they were rewarded by a most interesting and helpful lecture on "The Teaching of Accountancy by Diagrammatic Representation," by Mr. James Stephenson, M.A., B.Com., B.Sc., the head of the Commerce Section of the local Technical College. Mr. Stephenson dealt in a breezy manner with the fundamentals

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of the keeping of accounts and illustrated his remarks with blackboard drawings. We are hoping for a return visit from Mr. Stephenson in the near future.

On 12th November the Institute Examination Papers set in May last were discussed, the opening remarks being made by the two candidates who upheld the honour of the Society at that Examination, Mr. C. E. Maclay (Final) and Mr. F. R. Lowther (Intermediate). These meetings for discussion are always successful, and we are glad to note a distinct decrease in the "stage fright" which was commented upon in these columns some time ago.

Before these notes appear in print several of our members will have visited Moorgate Place. They take with them our heartiest wishes.

National Guild of Accountants' Clerks.

A meeting of members of the Manchester Branch was held in the Onward Hall, Deansgate, Manchester, on Friday, the 12th November.

The Hon. Secretary reported that he had received replies from the local societies of Chartered and Incorporated Accountants to the letter sent to them on June 21st 1920, asking them to consider the formation of a local Whitley Council for the profession.

The Manchester Society of Incorporated Accountants replied on the 29th July to the effect that they were not a properly constituted body to deal with the Guild. This was followed by an interview between the President and Hon. Secretary of the Society and the Hon. Secretary of the Guild, when the representatives of the Society again pressed the objection that they "were not a society of employers" and suggested that the Guild should aim at the formation of an Employers' Federation.

The Manchester Society of Chartered Accountants replied on the 21st October 1920 and referred to a letter sent by the Secretary of the Institute to the Organising Secretaries of the Guild reaffirming the position adopted in the letter from the Institute, published in the *Accountant* on 6th December 1919.

The meeting reaffirmed its opinion that the most satisfactory method of allaying the discontent in the ranks of the employees and of maintaining the prestige of the profession was by means of a Whitley Council.

The following scale of salaries was unanimously adopted as the minimum scale on which it was possible for accountants' clerks to maintain their efficiency :—

Junior clerks, age 16	...	32s. 6d. per week.
" " 17	...	40s. od. "
" " 18	...	47s. 6d. "
" " 19	...	55s. od. "
" " 20	...	62s. 6d. "
" " 21	...	70s. od. "
" " 22	...	80s. od. "
" " 23	...	90s. od. "
" " 24	...	100s. od. "

Senior clerks, minimum, £450 per annum.

Principal or managing clerks, £600.

A resolution was unanimously passed congratulating the Guild of Insurance Officials on the stand they are taking against the victimisation of their members by the General Accident Assurance Co. and pledging the support of the National Guild of Accountants' Clerks.

Books of the Month.

A SYNOPSIS OF MERCANTILE LAW. By A. CREW, Barrister-at-Law. Third edition. $8\frac{1}{2} \times 5\frac{1}{2}$, xiii+207 pp. 7s. 6d. n. Post free 7s. 11d. [This is a book which should find a big demand amongst law and accountancy students, being specially useful prior to the Examinations. It includes special chapters on arbitration, bankruptcy, a glossary of legal phrases, maxims, and definitions, and concludes with 250 questions taken from the examination papers of various bodies.]

INCOME TAX, EXCESS PROFITS DUTY, AND CORPORATION PROFITS TAX under the Finance Act, 1920. By ERNEST EVAN SPICER, F.C.A. $9\frac{1}{2} \times 6$, 48 pp. 2s. 6d. n. Post free 2s. 10d. [The basis of taxation having been so materially changed, and a new impost having been introduced by the Corporation Profits Tax, the Act requires careful study by students, professional accountants, and the officers of companies liable for the payment of the new tax, and we can unreservedly recommend this book to them all.]

INCOME TAX AND SUPER TAX PRACTICE. By W. E. SNELLING. $8\frac{1}{2} \times 5\frac{1}{2}$, vii+188 pp. Fourth edition. 12s. 6d. Post free 13s. [The fourth edition of this comprehensive work has just been issued and incorporates the provisions of the Consolidation Act, 1918, and the Finance Acts, 1919 and 1920. The business man will find it a very useful and well-arranged book of reference.]

EXCESS PROFITS (including Excess Mineral Rights) **DUTY** and Levies under the Munitions of War Act. By W. E. SNELLING. $8\frac{1}{2} \times 5\frac{1}{2}$, xx+496 pp. Sixth edition. 21s. n. Post free 21s. 9d. [The fact that this book has reached the 6th edition is a sure sign of its usefulness. Both the arrangement and language are clear and it is a very valuable work of reference for the accountant and the business man. The provisions of the 1920 Finance Act are included in this edition.]

CORPORATION PROFITS TAX. By C. WHORLOW LEGGE, F.S.A.A. 87 pp. 10s. 6d. n. Post free 11s. [This is one of the best of a number of publications dealing with the new impost, and it should be of material assistance to accountants and company officials.]

THE CORPORATION PROFITS TAX. By A. E. ROBERTS, A.C.A., $8\frac{1}{2} \times 5\frac{1}{2}$, 15 pp. (Paper cover.) 1s. n. Post free 1s. 3d. [This small brochure gives a clear resumé of the provisions dealing with the new tax, with a useful *pro forma* example of the incidence of the tax in relation to the accounts of a company liable thereunder.]

Cheques and Bills of Exchange.

By Nevil P. Truman.

This Essay was awarded the Prize in the Final Division of the Competition held in October.

Comparatively speaking, Bills of Exchange are of modern origin, having been brought into use by the Florentines in the twelfth, and by the Venetians in the thirteenth century. Their use came to England through France and was very gradual. Prior to the close of the sixteenth century the negotiability of bills by endorsement was unknown, they being made payable to a definite person or his assigns. But after this date arose the custom of making bills payable to order and of transferring them by endorsement. This convenience soon became generally used and is now incorporated in English law.

Originally Bills of Exchange appear to have been used between English and foreign traders, they were later extended to bills between all traders, and, finally, became of general use between all persons, whether traders or not.

A Bill of Exchange is defined by the Bills of Exchange Act, 1882, as "an unconditional order in writing, addressed by one person to another, signed by the person giving it, requiring the person to whom it is addressed to pay on demand, or at a fixed or determinable future time, a sum certain in money to or to the order of a specified person or to bearer."

The same Act defines a cheque as a "Bill of Exchange drawn on a banker, payable on demand."

Both "bills" and "cheques" are negotiable instruments, that is those which, if taken in good faith and in exchange for value, become the property of the holder and can be enforced in spite of any defects of title which may exist on the part of the person from whom the present holder acquired the instrument. This negotiability may be negated, as we shall see later, by "crossing" and adding "not negotiable" to a cheque, and by incorporating this provision in the body of any other bill.

CHEQUES.

1. *As Between Banker and Customer.*

A banker is bound to honour his customer's cheques providing the customer has funds in the bank to the amount of the cheque.

The holder of a cheque must present it within a reasonable time. If owing to non-presentment within such time the drawer is damaged (e.g. by the banker's insolvency), he may obtain judgment for the damage from the banker provided he was entitled to have the cheque paid within the reasonable time.

A banker's authority to pay a cheque is revoked (a) by countermand of payment; (b) by notice of customer's death; (c) by the making of a receiving order in bankruptcy against the customer or by the latter's commitment of an available act of bankruptcy; (d) by receipt of a garnishee order.

2. *Crossing.*

Cheques may be generally or specially crossed; the former by adding two parallel transverse lines with or without the words "and company," and

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with or without the words "not negotiable"; the latter by the further addition of a particular banker's name.

The effect of crossing is to prevent a holder receiving payment except through a banker who collects for him. In the case of special crossings only the bankers named can receive payment.

No crossing may be altered except as allowed in the Act :—

- (a) Holder may cross an uncrossed cheque.
- (b) Holder may turn a general crossing into a special crossing.
- (c) Holder may add the words "not negotiable."
- (d) Banker may cross an uncrossed cheque.
- (e) Banker may convert a general crossing into a special crossing to himself.
- (f) Banker may specially cross to another banker any cheque specially crossed to himself.

It will, therefore, be seen that a crossed cheque can only be paid into the account of one having a banking account—it cannot be paid out over the counter—this minimises the risk of unauthorised persons obtaining payment.

The effect of crossing a cheque "not negotiable" is that the holder does not obtain a better title to the cheque than the previous holder; thus if a stolen cheque is passed on to a third party, such party, although having acquired it for value, is not entitled to have the cheque honoured as he would had the cheque been left as an ordinary negotiable instrument without the special crossing.

The Act also provides that a banker who pays a cheque drawn on him otherwise than according to the crossing is liable to the true owner for any loss sustained thereby.

3. Protection of Bankers.

Section 82 of the Act provides that where a banker in good faith, without negligence, receives payment of a crossed cheque for a customer who has no title, or a defective title, thereto, he is protected against the true owner.

Gordon's case, 1903, laid down, among other rulings, that the banker in order to be protected must not credit his customer with the amount till after collection. This judgment created such an inconvenient situation that in 1906 the Bills of Exchange (Crossed Cheques) Act was passed in order to provide protection for the banker although he credits his customer before collection.

Protection is also afforded to the banker by Section 60 of the 1882 Act where he has paid a cheque or bill drawn on himself with a forged endorsement, but he must act in good faith and in the ordinary course of business. He is not protected where the forged signature is that of the customer, neither is he protected where he pays a bill on a forged endorsement if the bill is addressed to his customer.

4. Post-dated Cheques.

These may be sued on at maturity; they may also be validly negotiated before the due date.

5. Endorsement.

Cheques made payable to a certain person "or order" require endorsement, but those made payable "to bearer" do not.

6. General.

It may be noted that since a Bill of Exchange is an unconditional order, the practice, current in commercial houses, of making cheques payable subject to a receipt being given on a form at the foot of, and part of, the

Cheques and Bills of Exchange.

cheque results in the document not being a cheque within the meaning of the Act, though it may come within the Sections 76 to 82 of the Act, which relate to crossing by virtue of the Inland Revenue Act, 1883, Section 17, although not becoming thereby a negotiable instrument.

A large number of cheques drawn are never actually presented over the bank counter, being paid by their holders into their own banks for collection and thus eventually reaching the Clearing House, where they are cancelled against each other at the daily settlement of the claims of the various banks.

The endorsements are sometimes too numerous for the space on the back of the bill, in which case they are placed on an "allonge," which is a slip of paper gummed to the bill.

BILLS OF EXCHANGE.

1. Parties.

The parties to a Bill of Exchange are the drawer, the drawer or acceptor, the payee and the endorser, who should all be able to contract by bill.

Signature of a firm name is equivalent to signature of all partners therein. Signature or a trade or assumed name is equivalent to signature of the real name of the party (or parties). An infant is not liable on a bill, but the holder of a bill signed by an infant may enforce it against all other parties.

2. Obligations.

The Acceptor engages that he will pay according to the terms of his acceptance, and he may not deny to a holder in due course the existence and capacity of the drawer or the payee, or the genuineness of the drawer's signature, but he may deny the genuineness of an endorsement.

The Drawer engages that the bill on presentment shall be accepted and paid and that he will compensate the holder should the bill be dishonoured. He may not deny the existence and capacity of the payee.

The Endorser engages in the same manner as the drawer the acceptance and payment of the bill and that he will compensate in case of dishonour. He may not deny the genuineness of the drawer's signature, nor of any previous endorsement, nor his own title to the bill, nor its validity (to subsequent endorser).

3. Acceptance.

Acceptance by the drawee of the drawer's order must be written on the bill and signed by the drawee; signature alone is sufficient but no stipulation for payment other than in money is allowed. If an agent accepts, he must show his position or he will personally be liable; similarly with officers of a company.

Section 41 of the Act governs presentation for acceptance as follows:—

(a) Presentation to be made at a reasonable hour on a business day before bill is overdue to the drawee or his agent. (b) If there are two or more drawees, presentation must be made to all unless one is authorised to act for all. (c) If drawee is dead or bankrupt, presentation is to be made to his personal representative or trustee respectively. (d) Presentation by post is legal.

Acceptance may be qualified under Section 19 of the Act as follows:—

(a) Conditional; (b) Partial (e.g. part of sum only); (c) Local (as to place where payable); (d) Qualified as to time; (e) Acceptance by some, not all, of the drawees.

4. Delivery.

Delivery of the bill by the acceptor is necessary to complete acceptance, which may be cancelled in any way before delivery.

5. Acceptance for Honour.

In case of dishonour by the drawee the name of a referee, who will pay if needed, may be inserted by the drawer or any endorser.

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6. *Protest.*

Should the bill be dishonoured, Notation and Protestation is performed. Noting is having a minute made by a Notary on the bill when dishonoured. The Protest is the Notary's formal certificate of dishonour. Noting contains the date, charges, register number, and initials of the Notary on the bill, and on an attached ticket is given the answer received on presentation of the bill by the Notary.

In the case of Inland Bills protest is optional except where acceptance or payment for honour is required; a Foreign Bill, however, must be protested for non-acceptance or non-payment, otherwise the holder can have no recourse to drawer and endorsers.

If there is no Notary, any substantial resident with two witnesses may certify as to dishonour and this will be upheld as a protest. The protest must be stamped and protested on the day of dishonour at the place where such dishonour occurred. Should the bill be payable at an address other than that of the drawee, protest must be made at such address.

7. *Foreign Bills.*

These are generally drawn in triplicate to obviate inconvenience in case of loss in transit. Each is expressed to be payable only on condition that the other parts have not been paid, and all three parts are transmitted separately.

If the drawee accepts more than one part he is liable to the holder for every such part. If a holder endorses two or more parts to different persons, he is liable on each as if they were separate bills. When the drawee pays the bill, he should only do so on delivery to him of the accepted part, as if he does not do so he may be still liable on such part even though he has paid up.

The words "value received" are generally found on the bill, but these are unnecessary as value is presumed till disproved, under Section 3 of the Act.

8. *Negotiation.*

A bill is negotiated when transferred to another person in such a way that the transferee becomes the holder of the bill. If a "bearer bill," negotiation is by delivery; if an "order bill," it is negotiated by endorsement and delivery, but delivery is always necessary to complete the title to the bill.

Endorsement may be blank or special. The former specifies no endorsee and the bill then becomes payable to bearer. The latter specifies to whom the bill is payable, thus causing it to be negotiated only after endorsement by such person. A blank endorsement may be converted into a special one by the addition of some person's name. A restrictive endorsement, e.g. Pay B. only, ends negotiability, and anyone taking the bill from B. takes subject to any defences which might be set up against the transferor. If an indorser signs *sans recours* he avoids all liability. A "facultative" endorsement waives some duty of the holder to the endorser and no subsequent holder need fulfil the duty waived by such holder, e.g. "notice of dishonour waived." A condition in an endorsement may be disregarded.

9. *Forgeries.*

In general a forged or unauthorised signature is inoperative. The acceptor, however, is estopped from denying the validity of the drawer's signature as also is an endorser, who, in addition, may not deny any previous endorsements. The case of *Bank of England v. Vagliano Bros.* 1891, laid down that where a customer of a bank knew of such forgery and did not warn the banker, he could not deny the banker's right to debit him with the amount.

Cheques and Bills of Exchange.

10. Presentation for Payment.

This must be made at a reasonable hour on a business day; if not presented, the drawer and endorsers are freed. Delay is excused in certain cases by Section 46 of the Act.

Unless payable on demand or sight, three days of grace are allowed and the bill is due on the last day. If the last grace day is Sunday, Christmas Day, Good Friday, or a public feast or fast, the bill is due on preceding day; if a Bank Holiday other than above, then on the following day.

11. Dishonour.

Notice of this must be given by the holder to all parties to the bill whom he intends to charge. Circuity of action arises where the bill comes twice into the same hands; in such case the endorser has no claim against holders between his 1st and 2nd endorsements, as their rights against him cancel his against them.

On dishonour, damages recoverable are: (1) Amount of bill; (2) Interest from maturity; (3) Noting and Protesting charges where necessary.

12. Discharge.

A bill is discharged by (1) Payment; (2) Waiver; (3) Cancelling and altering; (4) Discharge of surety.

13. Promissory Notes.

These do not come under the strict heading of this essay but may be mentioned as a form of bill. They are, briefly, unconditional written promises, to pay on a given date a certain sum. The provisions of the Act, with few exceptions, apply to these notes.

It should, of course, be added that all bills are subject to a graduated Stamp Duty on their amount, which remark closes this necessarily short outline of what is really a large subject.

Bankruptcy Proceedings from the Petition to Discharge.

By Gilbert Taylor.

The following Essay was awarded the Prize in the Intermediate Division Competition held in October.

The Petition.—Proceedings in bankruptcy are commenced by the presentation of a petition asking that a receiving order may be made against the debtor. The place of presentation is in the High Court of Justice if the debtor resides or carries on business in the London bankruptcy district, if he resides abroad, or if his residence is not known; or in the County Court within whose district the debtor has resided or carried on business during the greater part of the previous six months. The petition may be presented either by the debtor or by a creditor, or several creditors may join in doing so. If the debtor presents his own petition it must state that he is unable to pay his debts, and requests that a receiving order or adjudication order

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may be made. The conditions which must be fulfilled in order that a creditor may petition are:—

- (1) The debt due to him (or to two or more creditors if the petition is presented jointly) must amount to £50.
- (2) The debt must be an ascertained or liquidated sum, payable immediately or at a certain future time.
- (3) The act of bankruptcy on which it is grounded must have occurred within three months before the presentation of the petition.
- (4) It must be shown that the position of the debtor is such as to render him liable to the English bankruptcy law.
- (5) If the creditor is secured he must state how he intends to deal with his security, or give an estimate of its value, and in the latter case there must be a balance of £50 owing to him after deducting from his debt the estimated value of it.

Whoever presents the petition must pay the stamp duty of £5, and make the deposit required by the bankruptcy rules, and is also liable in the first instance for the cost of the proceedings up to and including the making of the receiving order.

The proceedings which ensue on the presentation of a petition by a debtor is that the Court will generally make a Receiving Order at once. When the petition is presented by a creditor, an affidavit must be filed verifying the facts contained in the petition; a copy of the petition must be served on the debtor, and then the petition will be heard after an interval of at least eight days from the service. Having heard the petition, the Court will either make a Receiving Order or dismiss the petition.

When a petition has been presented either by the debtor or a creditor, it may not be withdrawn without leave of the Court.

The Receiving Order.—The effect of the Receiving Order is to make the Official Receiver the receiver of the property of the debtor, and to stay all legal process against either the debtor or his property in respect of debts provable in the bankruptcy. This order is notified by the Registrar of the Court to the Board of Trade, and he also forwards a sealed copy of the same to the Official Receiver. The Official Receiver serves a sealed copy on the debtor, sends notice to the *Gazette*, and advertises same in a local paper.

The Statement of Affairs.—The Statement of Affairs, which contains full particulars as to the debtor's assets, debts, creditors, securities held by them, &c., must be lodged within three days of the Receiving Order if made upon the petition of the debtor, or seven days if made on a creditor's petition.

Any person who states in writing he is a creditor of the debtor's estate may, either personally or by agent, inspect the statement of affairs and take any copy or extract therefrom.

The Official Receiver applies to the Court to fix a day for the public examination as soon as possible after the debtor has lodged his Statement of Affairs.

First Meeting of Creditors.—The first meeting of creditors must be held as soon as possible after the Statement of Affairs has been drawn up, but not later than fourteen days after the date of the Receiving Order. All creditors may be present at this meeting, and all those who have proved may vote at it. A quorum is constituted if three creditors are present, but if the total number of the creditors does not exceed three, the presence of all the creditors is necessary to deal with the matters ordinarily submitted to the creditors.

Bankruptcy Proceedings from the Petition to Discharge.

The chief business for consideration at this meeting will be the Statement of Affairs, a summary of which, together with any observations made upon it by the Official Receiver, will have been supplied previously to each of the creditors, and the determination whether a proposal for a composition or scheme of arrangement (if any), shall be entertained, or whether it is desirable to have the debtor adjudicated bankrupt, and if bankruptcy is resolved upon the appointment of a trustee and a committee of inspection.

Public Examination.—When the Court fix a day for the examination, it is the duty of the Official Receiver to give notice to the debtor and the creditors, and to publish it in the *Gazette* and in a local paper.

The examination is held in open court, and the evidence is taken on oath. The debtor may be examined by the Court, the Official Receiver, the trustee, or by any creditor who has tendered a proof, or his representative authorised in writing, and is bound to answer all questions put to him. Notes of the examination are taken down in writing, and afterwards read over to or by the debtor, and signed by him. These notes are open to the inspection of any creditor at all reasonable times.

The Court may adjourn the examination from time to time, and the examination cannot be declared closed until after the first meeting of the creditors.

Adjudication.—The effect of adjudication is to make the debtor a bankrupt—and as such subject to the disabilities of a bankrupt—and to vest his property in a trustee for the purpose of being divided among his creditors.

Adjudication may, at the debtor's request, be at the time of the Receiving Order, but it usually ensues upon the first meeting of creditors. The following are grounds for adjudication:—

1. An ordinary resolution of the creditors in favour of dissolution.
2. If no resolution of any kind has been passed.
3. If the creditors have not met.
4. If a scheme has not been accepted within fourteen days after the public examination.
5. If the debtor has failed without reasonable cause to give a proper account of his affairs.

Notice of the adjudication of bankruptcy must be given by the Registrar to the Official Receiver, and to the Board of Trade, and notice must also be duly advertised in the *Gazette* and a local paper.

Discharge.—The bankrupt can apply for his discharge at any time after adjudication, but the application cannot be heard until the public examination is concluded. The discharge is the order of the Court which grants the bankrupt his release, and removes from him the status of bankruptcy.

The bankrupt has to bear the cost of the application himself. The Registrar has to give the Official Receiver and the Trustee twenty-eight days' notice of the time and place fixed for the hearing. The Board of Trade have to be notified for gazetting purposes, and fourteen days' notice of the hearing has also to be given to all the creditors who have proved in the bankruptcy. The Official Receiver has to file a report on the debtor's conduct and affairs not less than seven days before the hearing.

The hearing is held in open court, and the application for discharge may be opposed by any creditor, or by the trustee, or by the Official Receiver. In considering the application, the Court will take into account the whole of

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the facts laid before it, and especially the report of the Official Receiver which is read, and the debtor must give notice if he intends to dispute any statement contained in it. It then either refuses or grants a discharge. If a discharge is granted, it may be either unconditional, conditional, suspensive, or conditional and suspensive. An unconditional discharge is an absolute and immediate discharge, and is only granted where the bankrupt would be entitled to a certificate of misfortune. A conditional order has the same effect, but subject to conditions binding his after-acquired property. A suspensive order stays the operation of the discharge till the expiration of a certain time. A conditional and suspensive discharge combines the effect of the two. An order containing any conditions cannot be made without the consent of the bankrupt, and if he does not consent within one month, the Court may, on the application of the Official Receiver or Trustee, revoke the discharge or make such other order as it thinks fit.

The effect of the discharge is to free the debtor from all debts provable in the bankruptcy with the following exceptions:—

1. Debts due to the Crown.
2. Debts incurred through fraud, or through a fraudulent breach of trust.
3. Damages for seduction, in an affiliation case, or against a co-respondent in a divorce suit, except so far as the Court directs.

The discharge may be revoked if the debtor fails to give all necessary aid to the Trustee in realising the estate, or if he fails to comply with any conditions attached to the discharge, such as failing to file with the Official Receiver an annual statement of income, &c.

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Municipal Finance.—II.

By J. H. McCall, F.S.A.A.

The following article is devoted to an examination of the financial problems which arise from the fact that the incomes of the General District Fund and the Borough Fund are derived in different ways.

Expenditure out of Rates.

A local authority is handicapped at the very outset owing to its inability to provide what may be called Working Capital for ordinary purposes. It has, in consequence, to go to its bankers for financial help, and if we examine the incidence of ordinary expenditure, we will find that this must necessarily be so.

The general and normal expenditure of a borough is chargeable either to the General District Fund or the Borough Fund. The income of these funds is derived in different ways. It will be, therefore, necessary to examine the financial problems involved in each separately.

General District Fund.

The expenditure chargeable to this fund is in respect of the ordinary services rendered by a local authority, such as highways repairs and upkeep, street lighting, scavenging and dust collection, and general public health administration. Before the commencement of the financial year (which ends on the 31st March in the case of local authorities), a detailed estimate of the probable expenditure for the year must be prepared. It is on the basis of this estimate that the amount of the General District Rate—the principal source of income out of which the expenditure is defrayed—is made. The rate to be levied is in respect of prospective expenditure, and may also include expenditure which has been incurred six months retrospectively, and there does not appear to be any provision for the inclusion in the estimates of sums required as working balances. The rate is made in respect of a half-year or a year, but in the latter case it is generally made collectable in half-yearly instalments.

Most of the payments anticipated, such as on account of wages and materials, may be spread fairly evenly over the period, and it would not be very difficult to draw a diagram showing the progress of such expenditure month by month. On the other hand, the income from the

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rates, out of which this expenditure is to be defrayed, cannot possibly be collected in a manner which would meet the monthly requirements as they arose. There are various things which must be done prior to the actual collection of the rates, and it will be found that generally the first demand notes are delivered during the first two months of the period. The collection takes place during the third, fourth, and fifth months. The result of this is the creation of the first financial problem of a local authority—that of making arrangements for being placed in funds during the first two months of each half-year. The only practical method which can be adopted is that of making arrangements with the bankers for the necessary overdraft during the recurring periods before the rate is collected. This is a fairly simple illustration of how financial problems arise, and if it stopped at that there would not be very much to discuss. There are, however, many other factors to be considered in conjunction with it, but it is sufficient to point out that from the very outset all local authorities seem bound to place themselves in that relationship with their bankers, which may possibly handicap them at every stage.

Borough Fund.

The expenditure chargeable to this fund is in respect of such services as the administration of justice, and certain other expenses incidental to a local authority acting as a municipal corporation. The expenditure, like that chargeable to the General District Fund, is also spread fairly evenly over the half-year. An estimate of the half-yearly or annual requirements is prepared in exactly the same manner, but instead of a rate being levied, a precept is made upon the Overseers, who have to include it in their estimates upon which the Poor Rate is based.

It is the general practice to stipulate in the schedule of the precept the dates on which the instalments must be paid, but it will be evident that the Overseers are not in a position to pay any instalments until they have collected the Poor Rate. In all cases where the rate collection is consolidated, the Poor Rate is demanded and collected with the General District Rate, so that the incidence of collection are the same. As, however, the Poor Rate, taken in conjunction with the General District Rate, creates a further financial problem, it will be as well to consider it in detail.

Poor Rate.

The Poor Rate is levied on the inhabitants by the Overseers, who act in the capacity of collecting agents for a number of authorities. The estimate of expenditure upon which the rate is based is made up of precepts from such authorities, together with certain administrative expenditure, as follows:—

- (a) Borough Fund expenditure, including Education.
- (b) Expenses of the Guardians of the Union.
- (c) Police expenditure in the Metropolitan area.
- (d) County Fund expenditure, including Education.
- (e) Collection and other expenses of the Overseers.

It is the practice of the Receiver of the Metropolitan Police to demand payment for his requirements in one lump sum in each half-year on a specified date, and this creates a considerable difficulty in considering the proportionate allocation of the rate as and when it is collected. The Guardians specify the instalments which they require to be made on certain dates during the half-year. It is curious to notice that generally

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the first instalment is due on a date when no portion of the rate could possibly be collected. Now both the Guardians and the Overseers are very much alarmed at the thought of creating an overdraft at the bank. Their accounts are both subject to audit by the District Auditor of the Ministry of Health, and they have no doubt been educated by this gentleman to know that no statutory provision allows them to borrow money from a bank. It should, perhaps, be pointed out that there is no objection to such borrowing, provided that no interest is charged, a contingency which is not likely to arise. The interest is regarded as illegal expenditure. An overdraft, then, so long as banks will charge interest, is a calamity to be avoided.

So we find the Guardians making urgent demands upon the Overseers to put them in funds, but as the Overseers have the same reluctance as to creating an overdraft, the result is a financial relationship between the Borough, the Overseers, and the Guardians, which may be described as truly Gilbertian. If the Overseers try to oblige the Guardians, then other precepting authorities must wait for their money. The remedy for this curious state may be found in the abolition of the Overseers as collectors of the rate, and the transfer of the duties of the Guardians to those authorities who have to levy the rate upon the ratepayers. We might quote another instance to illustrate this curious method of financing in a circle. The County Borough appoints a Visiting Committee to control the Mental Hospital for the borough. The majority of the patients are chargeable to the Guardians as pauper cases. Arising out of this, the Corporation have to finance the institution, and send their bill in to the Guardians at the end of the quarter. The Guardians, in their turn, must get their money from the Overseers to pay the Corporation, and the money, out of which the bill is paid, is being collected by the Corporation for the Overseers. This state of things might be remedied in the same way. As, however, the object of the writer is not to criticise, it is sufficient at this stage to point out that if the finance of a local authority is to be handled scientifically, due regard must be taken of the state of things as they exist at the moment.

Excess Expenditure.

Even if the finances of a local authority could be arranged to meet current expenditure which has been foreshadowed in the estimates, this would, in its turn, be upset by the fact that in these days the estimated expenditure is generally exceeded. There are, of course, reasons why this should be so. It is very difficult to foretell the fluctuation in prices of materials: nor has it been possible to estimate wages, owing to the constant awards given by the Industrial Councils. The difficulties arising out of the foregoing are increased by reason of new schemes involving expenditure being inaugurated after the rate is made, without regard to the fact that no provision has been made for financing it. As a consequence, there is bound to be at the end of the year an adverse balance representing excess expenditure for which no rate has been made. Quite apart from the fact that this creates a deficiency to be included in the next rate, it places the bank account in a worse position than had been anticipated. It is just here that the financial officer must use his influence on the side of economy. The commitments of each committee are made without due regard to the general commitments of the Corporation, and very often the Finance Committee can do nothing more than protest.

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Recoverable Expenditure.

The Corporation is required to finance various schemes, the cost of which is proportionately borne by the Government. It used to be the practice for the Government to pay in the current year 50 per cent. of the expenditure of the previous year on various services. This has now been altered to paying 40 per cent. of the estimated expenditure during the current year, with the balance up to 50 per cent. of the actual expenditure to be paid after the close of the year. This is a very serious proposition in respect of Education Grants, the effect being to permanently create an overdraft. While these other services may seem small in importance, it will be seen that they have an important bearing in their general effect upon the finances of the Corporation.

Expenditure of Trading Undertakings.

The regular spread of expenditure on account of the trading undertakings is much on the same lines as that of the Rate Accounts. There are slight variations, however, in the flow of income arising from each, which must be taken into account in relation to finance. The electricity consumers' accounts, for instance, are generally rendered quarterly, so that the position created is the necessity of providing Working Capital, which, roughly speaking, may be measured by three months' expenditure. The same will apply to a gas undertaking. Water charges are generally fixed on the basis of assessment, so that they can be, and generally are, collected with the rates. There are, however, a number of consumers who are charged by meter, the accounts being collected quarterly. In the case of the tramway undertaking, the income derived from fares is, of course, collected daily and paid into the bank, so that it is the only undertaking which does not require to be financed out of borrowed money at any period.

It will be seen that if all the financial problems outlined above are attempted to be amalgamated into one comprehensive financial scheme, the result will be somewhat complex and puzzling. There are various expedients practised, which we may discuss at a later stage, but before doing so it will be necessary to introduce a far more important factor than any of those mentioned—that of financing capital expenditure. I will discuss this in my next article, and mention may be made here that capital expenditure has a direct relationship to expenditure out of rates, inasmuch as the charges for interest and loan repayments fall upon the ratepayers. These charges can, when ascertained, be correctly included in the estimates, but it is very difficult to estimate for loan charges on account of capital expenditure which may be initiated after the rate is made.

Audit Programmes and Procedure—IX.

By Andrew Binnie, F.C.A., C.A.

The ninth instalment of Mr. Binnie's articles contains further sound advice as to the checks Auditors should employ, particularly as regards the verification of securities and documents of title.

Salaries.—Procure list of staff, giving full details certified by a responsible official, and compare same with payments made.

Agreement of Cash Book and Bank Pass Book Balances.—One side of the Cash Book should be ticked off item by item with the corresponding side of the Bank Pass Book for the whole of the year or period under audit. It is preferable that the payments side be checked, for a comparison of the names in the two books is useful, and as already mentioned, has been known to lead to the detection of irregularities, where the name in the Cash Book does not correspond with the name on the cheque. Moreover, the cheques not cleared through the bank at the end of the year can be readily distinguished owing to the fact that the payments are not ticked. The additions of both sides of the Cash Book should be checked, and a reconciliation statement with the balance in the Bank Book made in the following form:—

	£
Balance per Bank Pass Book at 31st December 1920	11,050
Add Paid in as per Cash Book, but not credited by Bank	
at date	200
	<hr/> 11,250
Deduct Cheques not cleared at date as per list	150
	<hr/> £11,100
Balance as per Cash Book, Fo. 102	<hr/> <hr/>

As an additional precaution, the bankers should be asked to certify to the balance as shown by their books at the close of the year, for it is always possible for the Bank Pass Book to be tampered with before production to the auditor, or even for a spurious book to be produced. Where branches pay in locally for the credit of Head Office Banking Account, care should be exercised to see that the branch payments are not in arrear, or being used to cover up any discrepancies in paying in at the Head Office. For this purpose the branch returns may be scrutinised and the date of paying in moneys compared with the date on which they appear in the Pass Book.

Where the Receipts side of the Cash Book is not compared in detail with the Bank Book, the amounts paid in should be tested here and there, so as to see that they are being paid in promptly. (See also under "Bank and Cash Balances," August issue.)

Checking Cash in Hand.—Where, as is usual, all moneys received are paid into the bank, and all payments other than Petty Cash payments

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made by cheque, the only cash balances in most classes of business consist of the Petty Cash Balances and in some cases various "floats." Unless trivial in amount the cash should be counted on the last day of the year. If counted later, both the Cash Book and the Petty Cash Book should be written up to date, and the Cash Book compared with the Bank Book, and the respective balances agreed at the point at which the counting takes place. A more convenient practice is that the Petty Cash balance and the "floats" be paid into the bank on the last day of the year, and a cheque drawn to re-open the Petty Cash Account and re-establish the "floats." This avoids the counting of the money. If the Petty Cash balance or floats are increasing from year to year, satisfactory explanations should be obtained. Unless the cash is checked from time to time, as it should be, by the management, it is obviously better if considered as a matter of substituted control, that the checking by the auditor should take place at irregular intervals. If the cash is only counted once a year at a fixed time, it may be borrowed for the occasion, as in the case of a certain toll-keeper in the old days, who, it is said, borrowed the amount of his "float" regularly once a year from a neighbouring publican, and so was able to produce it to the auditor. His methods only came to light when the publican inconveniently died the day before the audit. (See also "Bank and Cash Balances," August issue.)

Deposits at Bank.—Deposit receipts should be produced, or a certificate from the bank, stating the amount on deposit at the date of the Balance Sheet. The interest received on the deposit should be traced in the Cash Book.

The Journal.—The Journal in its original form, in which the fundamental principle of double-entry, that every debit must have a credit, was clearly brought out, is not now in general use in England, and, as a rule, is only used for adjusting entries, transfers, and closing entries, and not always even for those purposes, direct entries in the Ledger being made instead by some accountants. The Journal entries should be carefully scrutinised, and, where necessary, should be vouched by the production of invoices, agreements, correspondence, minutes, or other records. In almost all continental countries the use of the Journal is compulsory, and no entry may be made until each folio has been numbered and signed by a Judge of the Tribunal of Commerce, or by a Magistrate in the domicile of the trader. On the last page of the Journal a certificate is inserted certifying the number of folios making up the book. To this certificate the Judge or Magistrate must append the date and his signature. The form of the certificate, as translated, is as follows:—

"This book of 40 pages of the Company A.B.C., has been controlled by the undersigned.

.....(date).

A Judge of the Court.

.....Signature."

These formalities do not imply that the contents of the Journal are correct, but are only intended to avoid substitution of books in the case of legal proceedings or bankruptcy. A complete and well-kept Journal

Audit Programmes and Procedure.

in the continental form sets out the transactions of the business summarised in a convenient form, and from this point of view is extremely useful to the auditor, especially as it is in common form in continental countries, and can, therefore, be readily followed in each country with the assistance, when necessary, of a linguist. The details are usually found in subsidiary books kept on the columnar principle, which are but Journals in a more convenient form, in which there is still a debit for every credit, though much writing, posting, and checking are avoided by posting totals. (See also Continental Audits.)

Inspection of Securities and Documents of Title.—This part of the auditor's duties arises mainly in the case of Banks, Insurance Companies, Discount Houses, Trust Companies, Trust Estates, and such-like. The inspection should take place, if possible, immediately after the close of the financial year, otherwise all variations subsequent to the close of the year have to be traced through the books up to the actual date of inspection. The whole of each class of securities should be produced for inspection at the same time, so as to avoid any risk of substitution. In important matters it is preferable that the auditor be given sole control of the strong rooms and safes while his inspection is in progress, and during any temporary interruption of the work the strong rooms and safes should be sealed up. Sometimes joint control is arranged by the client and the auditor, in which case each will affix his own seal. The auditor should be furnished with a list of the securities and documents to be inspected, and the list, it may be added, should be checked off by him with the books as well as with the securities and documents themselves.

Production may be conveniently made in the following order, by which the documents likely to be parted with quickly in the course of business are taken first; next, those in respect of which time may elapse before the necessary certificates can be secured, and finally those which relate to matters of a more permanent character :—

- Bills of Exchange and Promissory Notes.
- Trade Documents.
- Temporary Investments.
- Stocks and Shares.
- Debentures, Bonds, &c.
- Life Assurance Policies, Life Interests and Reversions.
- Loans to Public Bodies.
- Patents and Trade Marks.
- Title Deeds, including Mortgages, Leases, &c.

Bills of Exchange and Promissory Notes.—In the case of Bankers and Discount Houses, the Bills should be examined at the close of business on the last day of the year and agreed with the Bill Books, and agreed in total with the Ledger balance. Bills held as security for advances (usually kept in separate receptacles), should be examined in the same way. Bills remitted for collection should be traced and agreed. In ordinary business houses, Bills Receivable have usually been discounted. Any on hand should be compared with the Bills Receivable Book, and the total agreed with the balance of the Bills Receivable Account in the Ledger.

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Trade Documents.—For goods in transit, Bills of Lading, Marine Insurance Policies and Invoices relating to the goods should be produced. For goods warehoused, Invoices, Warrants to Order, and Fire Insurance Policies should be exhibited.

Temporary Investments.—Temporary investments are generally made on account of money at short notice, or of moneys held over until a suitable permanent investment is found. The temporary investments are mainly either : (1) Money on deposit at interest with the bank or with a Discount Company or Financial House, for which a deposit receipt should be available, or a certificate from the house with which the money is deposited ; (2) Loans to Stockbrokers or others on security. It is convenient that they be securities capable of transfer by delivery, such as Bonds or Stocks to Bearer, but they may be certificates with signed transfers. The documents should be produced, also a memorandum of deposit or an account setting out the advances.

Stocks and Shares.—Stocks are either Registered or Inscribed, or to Bearer.

Registered.—The Share Certificates should be examined, attention being paid to the following points :—

That the certificate bears the usual note that a transfer will not be accepted by the company unless it is produced.

That the certificate is filled up in the name of the person to whom the stocks or shares purport to belong.

Whether the shares are fully paid, and if they are not fully paid, the amount paid up, including payments in respect of calls, which are usually indorsed on the back of the certificate.

As regards new issues, where the certificates have not been issued, what is known as the "Scrip," that is to say, the Allotment Letter, together with the bankers' receipts for moneys paid on application and allotment and for calls paid, should be available, for the Share Certificate is only supposed to be given up in exchange for the "Scrip," or if it be lost, for a letter of indemnity. Where part of the shares have been sold there should be produced : A "Balance Receipt," or a Certified Transfer (where the shares have been purchased, and the transfer has not been sent in for registration), or a Transfer Receipt (which is given in exchange for the Certified Transfer pending the making out of the certificate). A Certified Transfer bears a certificate as follows :—

Certified at the Company's Office.

Date.....Secretary.

This implies that the Share Certificate has been deposited at the Company's Offices.

Inscribed.—Inscribed Stocks include Consols, various Government and Municipal Stocks (inscribed at the Bank of England, the Crown Agents for the Colonies, or some of the principal Joint Stock or Private Banks).

Audit Programmes and Procedure.

They are inscribed in the names of the holders in Registers kept by the Inscribing Houses, and a transfer can only be made by the signature in the registers of the holders attending personally, or by their attorneys. No certificates are issued, but a memorandum is issued to the holders setting out that the Stocks have been inscribed in certain names. This document is often retained by the holders of the Stock, and produced under the impression that it is a document of value, and is sometimes accepted as such by inexperienced auditors. It is of no value whatsoever as a voucher, and should be disregarded. In the verification of Inscribed Stocks the first step is to fill up and hand to the Inscribing Banks or Houses one of the official forms supplied by them on application for the purpose. The form sets out that on a certain date (filled in by the auditor) the Stocks described on the form stood in the names of the holders. It also contains a request to certify, which must be signed by at least one of the Stockholders, and after it has been certified the form is sent direct to the auditor by the Inscribing House. The verification is made at each audit, a separate form being obtained and sent in each year. Where no official forms are issued, a letter is sent by the auditor to the Inscribing House, together with an authority by the Stock Holders authorising the giving of the information.

Bearer Shares.—These should be produced. In exceptional cases, mainly foreign securities, the transfer of the shares and the title to them takes the form of an indorsement on the back of the certificate.

Not infrequently, Securities are in the hands of a banker, in which case a certificate from the banker is sufficient. In addition to examining the Certificates, the auditor may also inspect the Company's Register, and see that the entry on the Register and the Share Certificates tally, but this is not often done.

Prize Essay Competition.

The subjects of the November competitions were evidently not popular, as there were no entries in the Final Division and only one in the Intermediate Division. This is unfortunate for "System," who sent in an excellent and well-thought-out essay on "The Best System of Internal Check," and we are awarding him a consolation prize of 10s. 6d.

For the January competition the subjects are:—

Final Division.—The best series of Diagrams illustrating freely any *pro forma* set of accounts.

Intermediate Division.—The best Diagram illustrating the chronological order of events in a Voluntary Winding-up.

We hope that there will be many more entries next time.

The Fundamentals of Accountancy.—IX.

By Lawrence R. Dicksee, M.Com., F.C.A.

(Sir Ernest Cassel Professor of Accountancy and Business Methods in the University of London).

“Venture” and Trading Accounts, the Valuation of Stock and Departmental Trading Accounts, are dealt with in Professor Dicksee’s article this month.

XXXVIII.—“Venture” Accounts.

A very little explanation will suffice to show how Venture or Consignment Accounts, as usually kept, conform with the rules already laid down as fundamental to scientific accounting. Occasionally—although less frequently now than in bygone days—a merchant has occasion to keep records of “adventures” undertaken by himself alone, by himself jointly with other parties, or possibly entirely at the risk of others. The Venture Account (which must, of course, be headed sufficiently explicitly to identify the precise venture) in every case stands for those who are actually concerned in the matter. It is, therefore, properly charged with all outlays incurred in connection with the venture, the accounts to be credited in each case being the accounts of the parties actually making the outlay. Similarly, the Venture Account is credited with the proceeds of the venture, and the corresponding debits are to the accounts of those receiving the proceeds. When the venture comes to an end, the balance of the Venture Account represents a profit or loss connected with the matter, according to whether the balance is a credit or a debit balance. This balance must then be transferred to the account, or accounts, of the parties entitled to the profits or liable in respect of the losses, as the case may be. If the venture has been undertaken at the risk of the business in whose books the account is kept, the balance is naturally transferred to Profit and Loss Account; but, if such ventures are of frequent occurrence, it will probably be found convenient to introduce an intermediate Nominal Account, “Profits and Losses on Ventures, Consignments, &c.,” for the purpose of collecting the results of the various ventures into a single total, thereafter to be transferred to Profit and Loss Account. In the case of joint ventures, the balance, whether profit or loss, has naturally to be divided among the various parties to the venture in the proportions which they have agreed to bear such profits or losses, and, failing express agreement to the contrary, equally.

If it be desired to balance the books of the undertaking before the venture is complete, and before any news has been received as to the disposal of the goods comprised in the venture, the debit balance on the Venture Account may be brought down as an asset, unless there is reason to suppose that the true value of the goods where they then are is less than the balance on the account. But should that be the case, the Venture Account should be credited with the amount by which it is desired to write down the debit balance so as to bring it more into accord

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with current values, a corresponding debit being made to the account (or accounts) of the parties liable to bear the loss. When information has been received as to the disposal of a part of the goods, but a part remains unsold, a debit balance should be brought down on the Venture Account representing the actual cost of the unsold goods, *in situ*, or such lower figure as may seem desirable in view of the circumstances of the case, and the difference between the debit and credit entries on the Venture Account may then be taken as being the profit or loss on the venture as far as it has proceeded, which will be dealt with in the same way as the profit or loss upon a completed venture.

XXXIX.—Trading Accounts.

The essential differences between a Venture Account and a Trading Account are :—(a) The profits or losses arising from trading are in the nature of things the profits or losses of the business in whose books the Trading Account is kept, whereas the profits or losses on a Venture Account may be profits or losses of the business or of any other parties, according to circumstances; (b) a Venture Account necessarily comes to an end at the conclusion of the venture, which in the nature of things is of limited and comparatively short duration, whereas the Trading Account continues so long as the business itself continues.

If these points of difference be borne in mind there is little difficulty in understanding the practical working of a Trading Account, which is naturally balanced off at the end of the customary financial period for the purpose of ascertaining the result of the trading up to that date, and is then treated in exactly the same way as a Venture Account while the venture is still uncompleted. But the Trading Account is naturally continually being reinforced by new purchases of goods which are placed to the debit, and continually being depleted by further sales which are placed to the credit, accordingly it is convenient to employ interim Purchases and Sales Accounts, and to transfer totals only to the periodical Trading Account.

The accuracy of the profit on trading (gross profit) shown by a Trading Account is necessarily dependent upon the accuracy with which the unsold Stock has been valued, and as the time never arrives during the life of the business when all the Stock is sold, there is not the same opportunity as in the case of the Venture Account of determining with absolute certainty the result of the operations that have taken place. Accordingly, special care must be exercised at stocktaking to ensure accuracy as far as possible, for if the Stock is over-valued, the gross profit will be overstated to a corresponding extent, and *vice versa*.

XL.—Basis of Stocktaking Valuation.

It is commonly said that unsold stock should be valued at cost price, or at market price, whichever of the two may happen to be the lower. This, however, is ambiguous, as "market price" might very well mean selling price, whereas what is actually meant by the term is the current cost of acquiring a precisely similar Stock in the market at the date of the stocktaking. When the cost of replacement has risen it is not desirable to make any corresponding increase in the stock-taking valuation, as the only possible way of making a profit out of trading in goods is by selling them, and accordingly it is the period when

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the goods are sold that ought to receive credit for the profit on sale. But, on the other hand, if goods have fallen in value between the date when they were purchased, and the date of stocktaking, it is clear that a loss has been sustained that would not have occurred had the goods been purchased at a later date, and this loss, which is due to an error of judgment in buying too soon, ought to be charged against the trading period when the error of judgment took place.

When unsold goods have deteriorated from any cause, their value should to a corresponding extent be written down at stocktaking, as in order to effect a sale the selling price will have to be reduced, and the period when the sale takes place ought to receive credit for not less than its expected rate of profit on the sale; and this can only be done if the stocktaking value be reduced. Thus, if an article which would ordinarily be purchasable for 20s. and saleable at 30s. has so deteriorated that it is only reasonable to expect that it can be sold if the selling price be reduced to 21s., the stocktaking valuation should be, not 20s. but 14s., so that when the sale takes place the accustomed rate of profit— $33\frac{1}{3}$ per cent. on the sales—may be obtained.

When expressing rates of gross profit in the terms of a percentage, traders invariably calculate the percentage upon the selling price, and not upon the purchase price.

A few commodities increase in value with the lapse of time because they actually improve, or mature—e.g. wines, spirits, timber, &c. In these cases, and in these cases alone, it is legitimate at stocktaking to value the unsold stock at a figure in excess of the original cost, the basis of valuations in such cases usually adopted being to add interest at a determined rate (say 5 per cent. per annum) to the original cost, having regard to the time that has elapsed since the date of purchase.

XLI.—Departmental Trading Accounts.

Large businesses commonly trade in many different varieties of goods; and, that they may do so to the best advantage, divide their business up into a number of distinct "departments," each dealing with a particular class or group of goods, in the charge of a manager who is a specialist in that department. When the business is so organised, it is found most desirable to frame the accounts so that a separate Trading Account may be prepared in respect of each separate department, as by that means it is readily possible to gauge the degree of success with which each department is managed. No difficulty whatever arises in the preparation of Departmental Trading Accounts so long as it is practicable to keep separate the Sales and Purchases of each department. This involves, of course, separate Ledger Accounts for the Sales and Purchases of each Department, as well as a distinct Departmental Trading Account for each. In the case of those Departments which expend labour upon their purchases before selling them (e.g. in the case of a dressmaking, millinery, or tailoring department), the cost of such labour is debited to the appropriate Departmental Trading Account, the totals having first been collected in intermediate nominal accounts, suitably headed—e.g. Dressmaking Wages Account.

A Company Secretary's Duties—VIII.

By W. H. Fox.

Mr. Fox deals this month with the final stage of a Company's affairs in which the Secretary may be concerned as Liquidator controlling the voluntary winding-up of the Company.

Voluntary Liquidation and Reconstruction.

Under Section 122 of the Companies Act, 1908, there are three methods in which the winding-up of a company's affairs may be conducted, namely: (1) by the Court, (2) voluntarily, or (3) voluntarily, but subject to the supervision of the Court.

We do not, however, here propose to deal with the winding-up by the Court, or with the special effect of a supervision order, beyond setting forth the terms of Section 203 of the principal Act, which provides as follows:—

“Where an order is made subject to supervision, the liquidator may, subject to any restriction imposed by the Court, exercise all his powers without the sanction or intervention of the Court in the same manner as if the company were being wound up altogether voluntarily.”

Under these circumstances it has not been thought necessary to make further comment on this modified form of *voluntary* liquidation.

The ordinary voluntary liquidation, where no reconstruction is contemplated, provides for the realisation of all the assets, the payment of the creditors, and if there is any surplus, a *pro ratâ* distribution amongst the shareholders in proportion to their rights, and as soon as this is effected, the necessary notice of final meeting will be advertised in the *Gazette*, and the company will be automatically dissolved in the course of three months.

Where, however, it is proposed to reconstruct the company, and make an assessment upon the new shares, all the necessary steps in connection with the ordinary voluntary liquidation will have to be carried out, in addition to the arrangements being made for effectively dealing with the terms of the reconstruction agreement. Assuming, therefore, that the Secretary has been appointed voluntary liquidator, the powers of the directors will cease, and all these powers will vest in the liquidator, who will have to carry out the formalities provided for in Part IV of the 1908 Act.

This part of the Act, consisting of Sections 122-242 inclusive, contains all the provisions relating to the winding-up of companies, Sections 182-198 being those especially affecting voluntary winding-up.

Under Section 186 the following consequences ensue on the voluntary winding-up of the company:—

- (1) The property of the company shall be applied in satisfaction of its liabilities, *pari passu*, and, subject thereto, shall, unless the articles otherwise provide, be distributed amongst the members according to their rights and interests in the company.
- (2) The company, in general meeting, shall appoint one or more liquidators for the purpose of winding-up the affairs and distributing the assets of the company, and may fix the remuneration to be paid to him or them.

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- (3) On the appointment of a liquidator all the powers of the directors shall cease, except so far as the company in general meeting, or the liquidator, sanctions the continuance thereof.
- (4) The liquidator may, without the sanction of the Court, exercise all powers by this Act given to the liquidator in a winding-up by the Court.
- (5) The liquidator may exercise the powers of the Court under this Act of settling a list of contributories, and of making calls, and shall pay the debts of the company, and adjust the rights of the contributories among themselves.
- (6) The list of contributories shall be *prima facie* evidence of the liability of the persons named therein to be contributories.
- (7) When several liquidators are appointed, every power hereby given may be exercised by such one or more of them as may be determined at the time of their appointment, or in default of such determination by any number not less than two.
- (8) If from any cause whatever there is no liquidator acting, the Court may, on the application of a contributory, appoint a liquidator.
- (9) The Court may, on cause shown, remove a liquidator, and appoint another liquidator.

The liquidator in a voluntary winding-up shall, within twenty-one days after his appointment, file with the Registrar of Companies a notice of his appointment in the form prescribed by the Board of Trade.

If the liquidator fails to comply with the requirements of this section he shall be liable to a fine not exceeding five pounds for every day during which the default continues.

In the case of a reconstruction there will doubtless be various preliminary discussions between the Board and the company's legal advisers, and perhaps with some of the principal shareholders, as to the terms of the reconstruction scheme. On these being arranged, and the amount of assessment upon the shares being settled, the solicitors will prepare the necessary agreement for the sale of the undertaking of the old company to a new company to be formed, each existing shareholder being entitled to a new share partly paid for each share held by him.

It is usually provided that, unless a certain proportion of the existing shareholders agree to the terms of the reconstruction, the matter will not be carried through, and the company's affairs will be finally wound up, and its assets distributed.

Under Section 192 of the principal Act, a dissatisfied shareholder may dissent from the proposed reconstruction, and have his original shares purchased at a price to be settled by arbitration.

The following forms, 19 in number, are self-explanatory, and only in certain cases require special notes to make the information complete. To save space, the formal heading is not given in subsequent notices after No. 1.

A word of warning may be given as to the danger of the Secretary issuing statutory notices of any kind before they have been approved by the company's legal advisers, and these forms must be in all cases taken as only the basis of the actual notices, to be issued after having received due consideration and approval by the solicitors.

A Company Secretary's Duties.

Form 1.

NOTICE OF EXTRAORDINARY MEETING TO WIND-UP.

(Special Resolutions).

In the matter of the Companies Acts, 1908 to 1917, and in the matter of

“MERRIE ENGLAND” LIMITED.

333 Austin Friars, London, E.C.

1st December 1920.

NOTICE IS HEREBY GIVEN that an Extraordinary General Meeting of the above-named Company will be held at 333 Austin Friars, London, E.C., on Monday, the 10th day of December 1920, at 2 o'clock in the afternoon, for the purpose of considering, and, if deemed desirable, passing the following Resolution, with or without modification:—

1. “That the Company be wound up voluntarily.”
2. “That C. D., the Secretary of the Company, be and is hereby appointed Liquidator for the purpose of such winding-up.”

Should the said Resolutions be passed by the requisite majority, the same will be submitted for confirmation as Special Resolutions, at a subsequent Extraordinary General Meeting, due notice of which will be given.

By order of the Board,

A. B.

Secretary.

To L. M. Esq.

[NOTE.—The notice for the second meeting may, if thought fit, be given at the same time, being, of course, contingent on the resolutions being passed at the first Extraordinary Meeting. A majority of three-fourths of the votes represented at the meeting is necessary.]

Form 2.

NOTICE OF CONFIRMATORY MEETING.

“MERRIE ENGLAND” LIMITED.

333 Austin Friars, London, E.C.

22nd December 1920.

NOTICE IS HEREBY GIVEN that an Extraordinary General Meeting of the above Company will be held at 333 Austin Friars, London, E.C., on Friday, the 31st day of December 1920, at three o'clock in the afternoon, when the subjoined Resolutions, which were duly passed at the Extraordinary General Meeting of the Company held on the 10th instant, will be submitted for confirmation as Special Resolutions:—

1. “That the Company be wound up voluntarily.”
2. “That C. D., the Secretary of the Company, be and is hereby appointed Liquidator for the purposes of winding-up.”

A. B.

Secretary.

To L. M. Esq.

[NOTE.—At this confirmatory meeting the resolutions are passed by a simple numerical majority. The appointment of the Liquidator may also be made at this meeting only.]

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Form 3.

NOTICE OF EXTRAORDINARY MEETING TO WIND-UP.

(Extraordinary Resolutions only)

" MERRIE ENGLAND " LIMITED.

333 Austin Friars, London, E.C.

1st March 1921.

NOTICE IS HEREBY GIVEN that an Extraordinary General Meeting of the above-named Company will be held at Winchester House, Old Broad Street, London, E.C., on Monday, the 14th March 1921, at 3 o'clock in the afternoon, for the purpose of considering, and if deemed expedient, passing the following Extraordinary Resolution, that is to say :—

That it has been proved to the satisfaction of this meeting that the Company cannot, by reason of its liabilities, continue its business, and that it is advisable to wind-up the same, and accordingly that the Company be wound up voluntarily.

Should the Resolution be passed, a further Resolution will be passed at the same meeting, for the appointment of Mr. C. D., of the above address, Secretary of the Company, or some other duly qualified person, to be Liquidator for the purposes of such winding-up.

By order of the Board,

A. B.

Secretary.

To L. M. Esq.

[NOTE.—When the wording of the resolution is as above, only one meeting is required to put the Company into voluntary liquidation.]

Form 4.

NOTICE OF EXTRAORDINARY GENERAL MEETING TO RECONSTRUCT and for APPOINTMENT OF LIQUIDATOR.

" MERRIE ENGLAND " LIMITED.

333 Austin Friars, London, E.C.

10th March 1921.

NOTICE IS HEREBY GIVEN that an Extraordinary General Meeting of the above-named Company will be held at the Company's office as above-mentioned, on Monday, the 21st March 1921, at 12 o'clock noon, for the purpose of considering, and if deemed advisable, passing the following Resolutions with or without modification.

A Company Secretary's Duties.

RESOLUTIONS.

That it is desirable to reconstruct the Company, and accordingly that the Company be wound up voluntarily, and a Liquidator appointed.

That the Liquidator be, and he is hereby authorised, pursuant to Section 192 of the Companies (Consolidation) Act, 1908, to enter into an Agreement in the form of the Draft Agreement now submitted to the meeting, with or without modifications, for the sale and transfer to a new Company, to be incorporated with limited liability under the Companies Acts, 1908 to 1917, of all the business, property, and undertaking of this Company in accordance with a scheme of reconstruction, of which the following are the principal terms and conditions:—

- (a) The name of the new Company to be the same as, or similar to, that of the old Company, and the nominal Capital thereof shall be £250,000 divided into 250,000 Ordinary Shares of £1 each. The Memorandum and Articles of Association of the new Company to be subject to the approval of the Liquidator.
- (b) As part of the consideration for the said sale, the new Company shall pay, satisfy, and discharge all the debts and liabilities of this Company, and also the expenses of, and incidental to, the winding-up of the same, and to the incorporation of the new Company, and the sale and transfer by the Liquidator of the assets and liabilities of this Company to the new Company.
- (c) As further part of the consideration for the said sale and transfer the new Company shall allot to the Shareholders of the old Company, as being the nominees of the Liquidator, 150,000 Shares of £1 each in the new Company, and duly registered in the books as 15s. paid up, in the proportion of one such Ordinary Share to each Ordinary or Preference Share held by the Proprietors respectively in the old Company.
- (d) That the Liquidator be and is hereby authorised to continue the business of the Company, pending the transfer thereof to the new Company.
- (e) That the Liquidator be and is hereby authorised to enter into such further contracts, and to execute all such instruments as may be necessary or desirable for carrying into effect the above resolutions.
- (f) The new Company shall accept the Company's title to the premises to be sold.

Should the said Resolutions be passed by the requisite majority, the same will be submitted for confirmation as Special Resolutions at a subsequent Extraordinary General Meeting, of which due notice will be given, and at which a Liquidator will be appointed.

By order of the Board,

A. B.

Secretary.

To L. M. Esq.

[NOTE.—The above Resolutions will require confirmation as Special Resolutions, at a further meeting to be held not less than 14 days, and not more than 28 days after the first meeting.]

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Form 5.

CONSENT TO TAKE THE NAME OF AN EXISTING COMPANY.

No of Certificate, 654,321.

To the Registrar of Joint Stock Companies.

I, the undersigned, being the Liquidator of "MERRIE ENGLAND" LIMITED, give you notice that this Company is in course of being dissolved, and hereby, under the provisions of the Companies (Consolidation) Act, 1908, Section 8, and on behalf of the said Company, testify its consent to the registration of a new Company by the name of "MERRIE ENGLAND" (1921) LIMITED.

Dated this 11th day April 1921.

(Signed) C. D.

Chartered Accountant.

Liquidator.

Presented for filing by
C. D.

Liquidator.

London, E.C.

Form 6.

NOTICE OF LIQUIDATION FOR "GAZETTE" AND REGISTRAR OF JOINT STOCK COMPANIES.

RE "MERRIE ENGLAND" LIMITED.

At an Extraordinary General Meeting of the members of the above-named Company, duly convened and held at 333 Austin Friars, in the City of London, on Tuesday, the 9th day of April 1921, the following Extraordinary Resolutions were duly passed; and at a second Extraordinary Meeting, duly convened and held at the same place, on Wednesday, the 27th day of April 1921, were duly confirmed as Special Resolutions, viz. :—

- (1) That the Company be wound up voluntarily.
- (2) That C. D., Secretary of the Company, of the above address, be and is hereby appointed Liquidator for the purposes of such winding-up.

Dated this 30th day of April 1921.

M. N.
Chairman.

Witness :

Q. R.

Solicitor.

A Company Secretary's Duties.

Form 7.

NOTICE OF APPOINTMENT OF LIQUIDATOR TO BE SENT TO REGISTRAR.

Certificate No. 654,321.

A 5s. Companies'
Registration Fee Stamp
must be impressed here.

THE COMPANIES ACTS 1908 to 1917.

NOTICE OF APPOINTMENT OF LIQUIDATOR.

(Pursuant to Section 187 of the Companies (Consolidation) Act, 1908.)

To the

REGISTRAR OF JOINT STOCK COMPANIES.

I, the undersigned, C.D., of 333 Austin Friars, London, E.C., hereby give notice that, by an Extraordinary Resolution of the Company, I have been appointed Liquidator of "MERRIE ENGLAND" LIMITED.

(Signature) C. D.

Date, 3rd May 1921.

[NOTE.—In a voluntary winding-up this notice must be filed with the Registrar within 21 days of the appointment, in default of which a penalty not exceeding £5 for every day the default continues is incurred.]

Form 8.

NOTICE CALLING MEETING OF CREDITORS.

Advertisement for *London Gazette* and two local papers, convening Meeting of Creditors pursuant to Section 188 of the Companies (Consolidation) Act, 1908.

"MERRIE ENGLAND" LIMITED.

NOTICE IS HEREBY GIVEN, pursuant to Section 188 of the Companies (Consolidation) Act, 1908, that a Meeting of the creditors of "Merrie England" Limited, will be held at 333 Austin Friars, in the City of London, on Monday, the 19th day of May 1921, at three o'clock in the afternoon, for the purposes provided for in the said section.

Dated the 3rd day of May 1921.

C. D.

Liquidator.

Witness :

Q. R.

Solicitor.

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Form 9.

ADVERTISEMENT FOR CREDITORS.

" MERRIE ENGLAND " LIMITED.

The Creditors of the above-named Company are required, on or before the 30th day of August 1921, to send their names and addresses, and the particulars of their debts or claims, and the names and addresses of their Solicitors (if any) to C. D., Chartered Accountant, of No. 333 Austin Friars, London, E.C., the Liquidator of the above Company, and, if so required, by notice in writing from the said Liquidator, are, by their Solicitors, or personally, to come in and prove their said debts or claims at such time and place as shall be specified in such notice, or in default thereof they will be excluded from the benefit of any distribution made before such debts are proved.

Dated this 30th day of June 1921.

Q. R. & Co.

Solicitors for the above-named.

Form 10.

LIST OF CONTRIBUTORIES.

IN THE MATTER OF THE COMPANIES ACTS, 1908 TO 1917,

AND

IN THE MATTER OF " MERRIE ENGLAND " LIMITED.

LIST OF CONTRIBUTORIES OF THE ABOVE NAMED COMPANY

on the 15th day of June 1921, the date of the Liquidation.

The following is a list of the Contributories of the said Company, together with their respective addresses and the number of Shares to be attributed to each, so far as I have been able to make out or ascertain the same.

In the first part of the List the persons who are Contributories in their own right are distinguished.

In the second part of the said List, the persons who are Contributories as being representatives of, or being liable to, the debts of others, are distinguished.

First Part. Contributories in their own right.

A.

Serial No.	Name	Address	Description	In what character included	Preferred Shares of £1 each
1	S. T. . . .	Frogna	Hampstead	Member in his own right	250
2				Do.	
3				Do.	
4				Do.	

A Company Secretary's Duties.

Form 11.

NOTICE OF INTENTION TO SETTLE LIST OF CONTRIBUTORIES.

IN THE MATTER OF THE COMPANIES ACTS, 1908 TO 1917,

AND

IN THE MATTER OF "MERRIE ENGLAND" LIMITED.

TAKE NOTICE that I, C. D., the Liquidator of the above-named Company, have appointed Wednesday, the 22nd day of August, 1921, at 11 o'clock in the forenoon at my office, 333 Austin Friars, in the City of London, to settle the List of Contributors of the above-named Company, made out by me, pursuant to the Companies (Consolidation) Act, 1908, and the rules thereunder, and that you are included in such List in the character and for the number of Shares stated below; and if no sufficient cause is shown by you to the contrary at the time and place aforesaid, the List will be settled, including you therein.

Dated this 8th day of August 1921.

C. D.

To

Liquidator.

No. in List	Name	Address	Description	In what character included	Pref. "A" Shares of £1 each	Ord. Shares of £1 each
				Member in his own right		

Form 12.

CERTIFICATE BY LIQUIDATOR OF CALL HAVING BEEN MADE.

IN THE MATTER OF THE COMPANIES ACTS, 1908 TO 1917,

AND

IN THE MATTER OF "MERRIE ENGLAND" LIMITED.

Pursuant to the Companies (Consolidation) Act, 1908, and to the Rules made thereunder, I, the undersigned, being the Liquidator of the above-named Company, hereby certify that I have this day made a Call of 7s. 6d. per Share upon the "A" Preference Shares held by the several persons mentioned in the Schedule hereto. I have also demanded payment of the Calls in arrear, as shown in the said Schedule.

Dated this 22nd day of August 1921.

C. D.

Liquidator.

SCHEDULE.

No.	Name, Address, and Description of Contributory	No. of "A" Shares	Call of 7/6d. per Share	Arrears of previous Calls	Total Amount due

The Accountants' Journal.

Form 13.

NOTICE TO CONTRIBUTORIES OF THEIR HAVING BEEN SETTLED ON LIST AND NOTICE OF CALL.

IN THE MATTER OF THE COMPANIES ACTS, 1908 TO 1917,

AND

IN THE MATTER OF "MERRIE ENGLAND" LIMITED.

TAKE NOTICE that I, C. D., the Liquidator of the above-named Company, have, by certificate dated the 22nd day of August 1921 under my hand, finally settled the List of Contributories of the said Company, and that you are included in such List in the character and for the number of Shares stated below.

I FURTHER HEREBY GIVE YOU NOTICE that I have this day made a Call of 7s. 6d. per Share, representing the balance remaining uncalled on the "A" Shares of the Company.

The following amount is due on your "A" Shares in the Company, viz. :—

7s. 6d. per Share on 100 "A" Shares	...	...	...	£	s	d
Arrears of previous calls	...	...	...	37	10	0
				25	0	0
				£	62	10 0

Dated this 22nd day of August 1921.

C. D.

To

Liquidator.

No. in List	Name	Address	Description	In what character included	No. of "A" Shares	No. of Ordinary Shares

Form 14.

LIQUIDATOR'S STATEMENT OF ACCOUNT.

This is the exhibit marked "B" referred to in the affidavit of C. D., sworn before me this 13th day of July, 1921.

(Signed) A Commissioner, &c.

Form of Statement of Receipts and Payments and General Directions as to Statements.

- (1) Every Statement must be made on Sheets 13 inches by 16 inches.
- (2) Every Statement must contain detailed list of Liquidator's realisations and disbursements, record of all receipts derived from assets existing at date of winding-up order. Where property has been realised, the gross proceeds of sale to be entered with Disbursements. These

A Company Secretary's Duties.

accounts should not contain payments into the Companies Liquidation Account, or payments into or out of the Bank, or temporary investments by the Liquidator, which should be shown separately :—

- (a) By Bank Pass Book.
- (b) By a separate detailed statement.

Interest allowed or charged by the Bank, Bank commission, and profit or loss upon temporary investments should be inserted in the Accounts of Realisations or Disbursements, each receipt and payment to be entered so as to explain its nature. Receipts and payments must severally be added up at the foot of each sheet, and the totals carried forward without any intermediate balance.

(3) When the Liquidator carries on a business, a Trading Account must be forwarded as a distinct account.

(4) When dividends or instalments of composition are paid to Creditors, or a return of surplus assets is made to contributories, the total amount of each dividend actually paid must be entered in the Statement of Disbursements as one sum; and the Liquidator must forward separate accounts showing the amount of each creditor's claim, amount of dividend or composition payable to each creditor, and of surplus assets payable to each contributory. Each list to be on sheets 13 inches by 8 inches.

(5) Credit should not be taken in the Statement of Disbursements for any amount in respect of Liquidator's remuneration.

Liquidator's Statement of Account.

Pursuant to Section 224 of the Companies (Consolidation) Act, 1908.

Name of Company "*Merrie England*" Limited.

Nature of Proceedings *Voluntarily.*

Date of commencement of winding up

Date to which Statement is brought down

Name and Address of Liquidator

This Statement is required in Duplicate.

REALISATIONS.

Date	Of whom received	Nature of Assets realised	Amount
			£ s d

The Accountants' Journal.

DISBURSEMENTS.

Date	To whom paid	Nature of Disbursements	Amount		
			£	s	d

ANALYSIS OF BALANCE.

Total Realisations	...	...	...	...	...
„ Disbursements	...	...	...	...	...
Balance	...	...	...	...	...

The balance is made up as follows:—

1. Cash in hands of Liquidator	...	...	...	£	s	d
2. Amounts invested by Liquidator (as per separate account herewith)	...	...	...
Less Amounts realised from same	...	...	...
Balance of amount invested	...	...	...
3. Total Payments into Bank, including Balance at date of commencement of winding-up (as per Bank Book)	...	...	...
Total withdrawals from Bank	...	...	...
Balance at Bank	...	...	...
4. Amount in Companies Liquidation Account	...	...	...
Total balance as shown above	...	...	...	£

Note.—The Liquidator should also state—

- (1) The amount of the estimated assets and liabilities at the date of the commencement of the winding-up

The amount stated should be, respectively, the assets available for dividend (i.e. not charged to secured creditors or debenture holders) and the unsecured liabilities ranking for dividend.

- (2) The total amount of the capital paid up at the date of the commencement of the winding-up
- | | | | |
|---|-----|-----|-----|
| Paid up in cash | ... | ... | ... |
| Issued as paid up otherwise than for cash | ... | ... | ... |

- (3) The general description and estimated value of outstanding assets (if any)

- (4) The causes which delay the termination of the winding-up)

- (5) The period within which the winding-up may probably be completed

A Company Secretary's Duties.

Form 15.

AFFIDAVIT VERIFYING LIQUIDATOR'S STATEMENT OF ACCOUNT.

" MERRIE ENGLAND " LIMITED.

I, C.D., of 333 Austin Friars, London, E.C., the Liquidator of the above-named Company, make oath and say :—That the accounts hereunto annexed marked " B " contain a full and true account of my receipts and payments in the Winding-up of the above-named Company, from the day of 1921, to the day of 1921 inclusive, and that I have not, nor has any other person by my order or for my use during such period, received any moneys on account of the said Company other than and except the items mentioned and specified in the said account.

Sworn at No. 1 Lombard Street,
in the City of London,

This day of 1921.

C. D.

Before me,

(Signed) P. Q.

A Commissioner for Oaths.

Form 16.

LIST OF DIVIDENDS OR COMPOSITION.

" MERRIE ENGLAND " LIMITED.

I HEREBY CERTIFY that a Dividend (or Composition) of Twenty Shillings in the £ was declared payable on and after the 1st day of October 1921, and that the Creditors whose names are set forth below are entitled to the amounts set opposite their respective names, and have been paid such amounts, except in the cases specified as unclaimed.

Dated the 30th day of September 1921.

C. D.

Liquidator.

To the Board of Trade.

No. on List	Surname	Christian Name	Amount of Claim admitted	Amount of Dividend (or Composition)	
				Paid	Unclaimed

The Accountants' Journal.

Form 17.

NOTICE OF FINAL GENERAL MEETING.

IN THE MATTER OF THE COMPANIES ACTS, 1908 TO 1917,

AND OF

" MERRIE ENGLAND " LIMITED.

NOTICE IS HEREBY GIVEN that a General Meeting of the above-named Company will be held at the Chartered Accountants' Hall, Moorgate Place, London, E.C., on Wednesday, the 1st day of April 1922, at 11 o'clock in the forenoon precisely, for the purpose of having the accounts of the Liquidator, showing the manner in which the winding-up has been conducted and the property of the Company disposed of, laid before such Meeting, and of hearing any explanation that may be given by the Liquidator, and also of determining by Extraordinary Resolution the manner in which the Books, Accounts, and Documents of the Company and of the Liquidator thereof shall be disposed of.

Dated this 15th day of February 1922.

C. D.

Liquidator.

Form 18.

LIQUIDATOR'S STATEMENT TO BE SUBMITTED TO FINAL MEETING.

RE " MERRIE ENGLAND " LIMITED.

[NOTE.—No special form is provided in the Act for this, and the following heads of information are suggested as being sufficient to comply with the regulations. This report does not have to be filed.]

1. Heading.—Account showing the manner in which the winding-up has been conducted and the property of the Company disposed of to be laid before the General Meeting called in pursuance of Section 195 of the Companies Act, 1908, and held (as in notice of meeting and date).
2. Date of advertisement in *Gazette*.
3. Do. Liquidator's appointment.
4. Particulars of compromises with shareholders.
5. Sale of Stores.
6. Special difficulties in realising property abroad causing delay.
7. Amounts of dividends paid to creditors.
8. Summary of Liquidator's Cash Account.
9. Resolution as to disposal of Company's books.

A Company Secretary's Duties.

Form 19.

RETURN OF FINAL WINDING-UP MEETING.

(Pursuant to Section 195 of the Companies (Consolidation) Act, 1908)
of

" MERRIE ENGLAND " LIMITED,

To the Registrar of Joint Stock Companies.

I have to inform you that a Final Meeting of the shareholders of " Merrie England " Limited, was duly held on the 1st day of April 1921 for the purpose of having an account laid before them showing the manner in which the winding-up of the Company has been conducted, and the property of the Company disposed of, and that the same was done accordingly.

C. D.

Liquidator.

Dated 5th day of April 1921.

[NOTE.—This Return to be signed by the Liquidator of the Company in course of winding-up. This Return must be forwarded to the Registrar under a penalty of £5 per day during default.]

On this return being sent in to the Registrar, the duties of the Company Secretary, in so far as they relate to " Merrie England " Limited, may be said to be brought to a final conclusion.

A correspondent has stated that the form of cheque submitted by me did not require a receipt stamp as well as the original impressed stamp. The following copy of a letter from the Inland Revenue expresses a contrary opinion :—

" SIR,—With reference to your letters of the 3rd instant and 23rd ultimo, enclosing specimen form of cheque to which a receipt is attached for the signature of the payee, I am directed by the Board of Inland Revenue to acquaint you that a receipt in the form submitted is liable to the Stamp Duty of 2d. in addition to the impressed stamp of 2d. on the cheque."

In the case, however, of *Bavins and the South-Western Bank* (1900), which is quoted by your correspondent, the decision of the Court was that the order for payment on such a cheque being *conditional*, a stamp on the cheque was not required under the Bills of Exchange Act, 1882. I am, therefore, in further communication with the Inland Revenue Authorities on the subject.

Income Tax Practice—IX.

The help of the Courts has been sought in innumerable instances to decide what constitutes an allowable expense for income-tax, and some of the important cases are dealt with below.

Deductions.

The same principles apply in the main to Excess Profits Duty. In the first place, the question of whether a particular item is allowable or not generally resolves itself into whether it is capital expenditure or revenue expenditure. The law provides, in short, that all expenses, "wholly and exclusively" laid out for the purpose of the business, are deductible if they are not capital expenditure. This, as may be expected, has produced a very considerable number of cases on the question of what is capital expenditure? No general rule has been, or can be, evolved, as each case depends so much upon its own facts, but it has been laid down in *English Crown Spelter Co. v. Baker* that "capital" in the Income Tax Acts has no statutory definition, and must, therefore, be construed in its commonly accepted meaning, i.e. as it is generally understood in commercial circles. The case of *Usher's Wiltshire Brewery Co. v. Bruce* similarly laid down that "profits" must be arrived at on ordinary commercial principles, subject to any specific prohibitions appearing in the Income Tax Acts. These prohibitions really relate to capital expenditure.

Wasting Assets.

The law, as laid down in *Alianza Co. v. Bell* and many other cases, provides no allowance for a wastage of assets—for a recoupment of capital used up in the course of the trading, except that wear and tear of plant and machinery was eventually allowed. In the *Alianza* case a company, operating in South America, worked some nitrate fields, and, owing to the raw material being used up and appearing in sales, a charge was made for the cost of the used up material. This was refused on the ground that losses of capital of that nature were not allowable as expenses "wholly and exclusively" laid out for the purposes of the business, but that they were "capital expenditure" prohibited by the income-tax law. This case was decided in the House of Lords, so that it is useless speculating on its correctness.

The same principle has been followed in the case of premiums paid on the acquirement of leases. These, spread over the period of the lease, are clearly legitimate trading expenses, but they have been refused in the Courts as being losses of capital. The rent paid under the lease is, of course, allowed, yet the premium is, in reality, a payment of rent in advance.

Tied House Expenses.

The case of *Usher's Wiltshire Brewery Co. v. Bruce*, although dealing actually with the case of brewers, has a very wide general effect. It

Income Tax Practice.

swept away much of the restriction of allowances, and introduced principles more consistent with equity than those which prevailed under previous judicial decisions. The position was that the company held several public-houses which it let to tenants who were tied to purchase beers from the company, and the rents charged by the company were smaller than rents which would have been charged to tenants who were free to purchase beers where they chose. The company claimed to charge the expenses of these tied houses, e.g. repairs, and also the net Schedule A assessments, but the Revenue refused these on the contention that the holding of the public-houses was not part of the brewer's business, but was a holding as owners of property not as traders.

The House of Lords rejected the Crown's contention, and held that the company acquired the houses with a view to increasing its profits, and that the expenses of obtaining those increased profits were clearly allowable.

Prior to the above case, the brewer was allowed to deduct the net Schedule A assessments of his brewery premises, and of his public-houses in which he placed managers, not tenants. A peculiarity of the case is that one of the Judges allowed the *gross* Schedule A of the tied houses, and this has been followed in practice.

In the case of public houses leased to brewers who sub-let to tenants, the rent paid by the brewer exceeded the rent received from the tied tenant, and the Court allowed this " loss on rentals " as a deduction.

Annual Value.

In *General Hydraulic Power Co. v. Baker*, it was claimed that the allowance for the annual value of business premises owned and occupied by a trader should be a deduction from the average as in the case of depreciation, but the Court decided that the annual value was the equivalent of rent, and should be deducted as rent would be, i.e. against each of the three years' profits, before striking the average.

Trade Subscriptions.

In practice, subscriptions to a Trade Association are allowed if the Association agrees to be assessed on the excess of the income over the expenditure. On a winding-up of the Association, any funds returned are treated in the hands of the members as having already borne tax.

The question was dealt with in *Guest, Keen & Nettlefolds, Ltd. v. Fowler*, where the company was a member of an Association formed to keep up prices by the elimination of competition. It was held that the contributions were " wholly and exclusively " laid out for the purpose of the business, and were, therefore, allowable.

In the *Lochgelly Iron & Coal Co.* case a claim was made to deduct contributions made to the Mining Association of Great Britain, and it was laid down that deduction could not be made where the contributions were towards objects which would benefit the industry as a whole, such as a levy to provide for experiments in the explosive properties of coal dust, but that where the contribution was e.g. for a Wages Board for settling wages claims it should be allowed, as the trader would have to bear the cost individually if no joint Board existed.

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Travelling Expenses.

In the *Directors of Elworthy Bros.* case it was held that a director could not claim to deduct the cost of travelling from his residence to the company's offices, and, in another case, a solicitor, who held appointments in two towns, was refused deduction of his expenses of travelling between the two towns. Both these cases referred to Schedule E, however, and the ground of the decisions was that Schedule E only allows expenses incurred in the performance of the duties, and that travelling to a place of business was not part of the duties. In the case of workmen assessable quarterly, the allowance is given in practice.

Income Tax Notes and Comments.

In this column Income-tax recent alterations of law and practice are discussed and explained and readers' queries are answered. Arrangements have been made to reply to these queries by post, the replies being published subsequently in the "Journal" under noms de plume. A stamped addressed envelope should be enclosed with the queries and the service is limited to subscribers to the "Journal."

Statutory Percentages.

The following additional Orders of the Board of Referees have been issued for Excess Profits Duty :—

Aeroplane Hangars	No Order
Chrome Mining in Beluchistan	15 per cent.
Coal Mining in Ireland	9 "
Cotton Growing (British Empire)	12 "
(Nyasaland)	10 "
Lead and Zinc Mining (U.K.)	15 "
Shipbuilding and Engineering (China)	10 "
Sugar manufacture from Milk	7½ "
Tea Growing (Nyasaland)	8 "
Telephones (Argentina)	8 "
Tobacco Growing (Nyasaland)	8 "

The above rates are for companies and firms, and sole proprietorships have an additional 1 per cent. for Accounting Periods ending before 1st January 1917 and 2 per cent. for subsequent periods. For *increased capital* (and for the percentage standard where there was not one pre-war trading year) a further 3 per cent. is added to the rates for companies and firms for periods ending after 31st December 1916 and before 1st January 1920, and another 2 per cent. for periods ending on or after the latter date.

Succession.

A correspondent, "Subscriber," asks if where a firm is taken over by a limited company, which consists of the owner of the late firm and another person, it constitutes a change of ownership, and if deficiencies of the late firm can be set off against the excesses of the new company for the purposes of Excess Profits Duty.

The deficiencies are refused to the company under *Inland Revenue v. Gittus*, which laid down that a deficiency was a personal allowance that could not go to a successor. A limited company is treated as a distinct legal entity, but when there is absolute identity between the late proprietors and the present total shareholders, the deficiencies are given.

Income Tax Notes and Comments.

E.P.D. Allowances.

A correspondent, "Interested," asks which of the following is the correct computation for Excess Profits Duty :—

Balance of profit after writing back items disallowed ..	£	£
Less Pre-war standard, 13% on capital 31/3/1919, £3,607 ..	469	2,218
Allowance	200	
Additional allowance, $\frac{4,000 - 2,218}{5}$	356	
	—	1,025
Figure of assessment : $\frac{1}{4}$ at 60%, $\frac{3}{4}$ at 40%	£1,193	

The first year of trading ended 31st March 1915, there being no pre-war period, and the capital employed in 1914-15 was £800. Should the computation not be as follows :—

Profit to 31st March 1920	£	£
Less Interest on increased capital, 13% on	364	2,218
		1,854
Less P.W.S., 13% on £800	104	
Allowance	200	
Additional allowance, $\frac{4,000 - 1,854}{5}$	429	
	—	733
Figure for assessment at 60% and 40%	£1,121	

The pre-war standard must, by Section 45 (3) of the 1920 Act, be based on the capital of the first Accounting Period, so that there is an allowance for increased capital, and Section 26 (4) of the 1917 Act provides that the profits for deduction from the £2,000 (and, therefore, £4,000) shall be after adjustment for increased capital. The second computation is, therefore, correct.

Deduction of Tax.

It is asked by "R. F." if the following method of deducting income-tax on payment of dividends is correct :—

At a time when 1s. 2d. in the £ was the effective rate of tax, a company made an issue of Preference Shares. These were Six per Cent. Preference Shares and the company undertook to bear the tax up to 1s. 2d. in the £ (a somewhat unusual procedure with Preference Shares).

In communication with the company I pointed out that the shares were really 6.371 per cent. shares, less tax in the ordinary way, when issued.

The company replied to the effect that the shares were 6 per cent. shares, that they undertook to bear the tax up to 1s. 2d. in the £, and were thus quite in order in recovering the balance of 4s. 10d. from the shareholders.

Whether they would adopt this course if the shares were Ordinary Shares, I do not know.

Are not the ordinary shareholders being penalised on account of the company's failing to recoup itself sufficiently from the preference shareholders?

One of their most recent dividend warrant reads :—

Dividend at 6% for 6 months on 200 shares	£	s	d
Less Income Tax at 4/10 in the £	6	0	0
	1	9	0
	£4	11	0

This dividend is payable free of tax up to 1/2 in the £.

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Is not the amount of tax deducted incorrect?
Should the warrant not read:—

Dividend, &c.	£	s	d
Less tax at 4/10 on *£6 7s. 5d.	6	0	0
	1	10	10
	£4	9	2

$$*£6\ 7s.\ 5d = \frac{20/-}{18/10} \text{ of } £6.$$

At present the company is virtually deducting tax of 4s. 10d. on 18s. 10d., not 4s. 10d. in the £.

The question may depend to some extent upon the exact wording governing the conditions of issue of the shares, but if the shares were merely free of income-tax up to 1s. 2d. in the £, the company agreed to bear the first 1s. 2d. of the tax which would otherwise be borne by the shareholder. This is satisfied by the company's method of deduction.

Allowances.

A correspondent, "G.D.," submits the following:—

Last month A. and B. (partners) were assessed for income-tax at £1,811, divided as follows:—

A. = $\frac{3}{4}$	£	s	d	£	s
Earned income allowance	135	15	0		
	1,222	10	0		
Personal allowance	135	0	0		
	1,037	10	0		
Tax thereon, 3/- on £225				292	10
6/- on £862 10 0				0	0
B. = $\frac{1}{4}$	452	15	0		
Earned income allowance	45	5	0		
	407	10	0		
Personal allowances, &c... .. .	264	0	0		
	143	10	0		
Tax thereon, 6/- in the £ (as the full allowance of 3/- on the first £225 had been made in A.'s)				43	1
Total tax claimed	£335	10	0		

Payable half Jan. 1, 1921, and half July 1, 1921.

(1) Is B. entitled to the first £225 at 3s. as well as A. or is only *one* allowance due *jointly* to the two partners?

(2) The partners formed themselves into a private limited company, duly registered last month, since which they have received an amended assessment as follows:—

Firm	£940				
Company.. .. .	£871				
Tax claimed from the Company = £871 at 6/- Payable on 1st January 1921	..	..	£	s	d
			261	6	0
Tax claimed from the Partners £225 at 3/- } £274 at 6/- } .. .. .	..	..	115	19	0
(After allowing one-tenth of £940 and A.'s allowance of £135 and B.'s allowance of £212.)			Total Tax	£377	5

Is the company liable for this amount, seeing that it has only just commenced business, or should the partners be personally liable for their respective portions?

(1) The charging of tax at 3s. on the first £225 is a personal allowance to the individual and does not recognise a partnership. It is the same as the previous abatements which only had reference to the individual partner, so that two allowances should be given.

Income Tax Notes and Comments.

(2) The assessment for 1920-21 has to be apportioned between the firm and the company.

Additional Assessment.

A client of "Very Puzzled," an ex-army officer, was demobilised on the 20th of April 1919. On the 12th of May, the same year (1919), he commenced duties as local agent (on commission) to a firm of wholesale clothiers. His earnings, adjusted to 5th April 1920, were £626. Making a return (year 1920-21), he has been assessed at the amount of his earnings for year ended April 5th 1919, i.e. £626. As well, he has now been additionally assessed for the year 1919-20 at £626. Is he liable to pay tax in respect of two years?

The additional assessment is in order as Schedule D charges, in the first year, on the profits of that year, and in the second year on the profits of the first year. The third year is on the average profits of the first and second years.

Schedule E.

"Jane" is the secretary for a company which was formed a year ago and which took over the business of another company. Half the shares are held by the two directors of the old company, one of whom is managing director of the new company. The company has a manufacturing agreement with another company which holds the remainder of the shares. In the Schedule E Return for the year ending 5th April 1921, the Secretary included, in addition to the managing director's salary, a special grant to him for services rendered prior to the taking over of the business of the old company. It has since been learnt that when the special grant was made to him he was given to understand, by the directors representing the manufacturing company, that it was a capital payment and that he would not have to pay tax on it.

The grant should not in any case be treated as 1920 income, as it was in respect of services rendered prior to 1920. The nature of the grant is the controlling factor. If it was merely a compensation for the changed conditions, it would be a capital payment. If it was for services in connection with the flotation of the new company, it would be a casual profit and, therefore, not liable. If it were for services rendered to the old company, it would not be liable as the sum was not paid by the old company.

Allowances.

A correspondent, "Puzzled," asks if a person can claim the £225 allowance if he is married but legally separated from his wife and paying her 15s. per week separation allowance awarded by the Court? Failing the above, can he claim the amount paid, £39 per year, as a deduction from his assessment?

(1) No. The wife could claim the allowance applicable to an unmarried person.

(2) The sum paid is allowed in practice as a deduction from the husband's income.

Superannuation.

The remuneration of "Nemo" is £300 salary and emoluments (house, rations, &c., valued at £100 per annum. His employers deduct at the rate of 2 per cent. on £400 (salary and emoluments) from salary for superannuation. In making his return he has deducted the full amount of superannuation contributions paid, viz. £8, but the Inspector of Taxes argues that he is only entitled to a deduction of £6.

The Inspector's contention is correct, as the £2 is not paid out of profits being brought into charge. Legally, superannuation is only allowable if deducted by virtue of an Act of Parliament, and the other cases are allowed under a concession.

EDITORIAL.

Advice to Students—II.

Assuming the student to have taken the advice tendered in our last month's article, and has spent his first year in a general survey of the examination subjects, he should then be in good form for commencing specialised study, and to this end he is recommended to seek the aid of a coach. If he is able to obtain the personal help of a qualified man, so much the better, as his personal deficiencies can then be specially dealt with. Generally speaking, the larger coaching firms provide exactly the same course for every student, whether good, bad, or indifferent, a series of printed questions and *pro forma* printed answers being supplied, and it is questionable whether the *personal* equation enters into the matter to any extent, if at all. However, be this as it may, we would advise our readers to adopt the following suggestions:—

Read your set of questions over *carefully*, and then study the appropriate text-book with a view to finding the correct answer, but *do not copy* the answer out of the book; let at least a day or two elapse before attempting to write your answer, for by these means you are *training your memory*, and you will have done much more towards gaining a knowledge of the principles of the law than by copying from a book. Further, when it is possible, try to illustrate your answer by quoting any legal decision you may have come across, either in the text-book, your *Journal*, or the daily paper. Cultivate neatness of style; a good habit formed thus is not easily broken, and it all helps to keep the examiner in a good temper when correcting your papers. Slovenly work is bad under any circumstances, and in an examination may make just the difference between a pass and a failure. This applies particularly to accounts, and students are strongly advised to do all their rough work in *ink*, on *properly ruled paper*; work done in pencil results usually in careless and untidy style, and leads to errors in casting, &c., owing to figures being out of alignment.

At least once a week every student should work out an accounts paper *against time*, for in an examination it is the "pace that kills," and only by constant practice will it ever be possible to solve the problems set by an examiner in the limited space of three hours. In answering your *tutor's* questions, *don't* try and find the question in past editions of the *Telephone*—(which can usually be done)—it will be no help to you whatever. Be honest with yourself and your work, and you will make progress; rely on somebody else's work, and you will go backwards instead of forwards. We remember a student in our coaching days, who invariably obtained full marks for all his homework, and was looked upon as the bright and particular "star" of the class. We all had our suspicions that he had copied the answers from somewhere, and this, in effect, proved to be the case, for he made a miserable failure at the examination.

We believe it to be an excellent plan always to study the special Act of Parliament in conjunction with any legal text-book; there is nothing like going to the original source for information, and whenever

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a particular section is quoted, the student should make a point of turning it up and reading it for himself.

As far as possible, adopt exactly the same methods in answering your coach's questions as you mean to adopt in answering the examiner's. That is, answer the question that is actually asked for; don't write a sermon *all round it*. It is astonishing the amount of irrelevant matter that students and candidates introduce into their answers, but it does them no good, and only exasperates the examiner. We are reminded, in this connection, of the old story of the divinity student, who was recommended to make a particular study of the Kings of Israel and Judah for his examination, but, unfortunately for him, the examiner did not desire to test his knowledge on this particular subject, but asked for a dissertation upon the Major and Minor prophets! The candidate being at a loss what to say, not having studied the matter, commenced his answer thus: "Far be it from me to draw invidious distinctions "between the Major and Minor prophets; let us turn rather to the Kings "of Israel and Judah," and then went off into a long description of those illustrious persons!

As far as possible, always tabulate your answers—commencing a fresh line for each step in the proceedings, or each item of an audit programme for example—it is so much clearer, and much more easy for an examiner to correct.

Don't rely too much upon those little books known as the Students' Examination Note Book, and a "Fortnight before the Examination." They are no doubt useful reminders of many important points, but our impression is that recently examiners have endeavoured to set questions, the answers to which cannot be found therein. We have known students who have openly confessed that they have relied entirely on such books, past numbers of the *Telephone* and luck! but we do not think, even if "luck" followed their efforts, that their future as professional men is likely to be very brilliant. A successful accountant is a specialist, and no one can be a specialist without honest hard work and conscientious study. If it is possible for the student to attend any special revision lectures just prior to the examinations, by all means let him do so, and as most articulated clerks are able to obtain time off before the examination, this plan can easily be adopted. We very strongly advise students to do as much work as they can in co-operation with other students; it is infinitely easier to tackle solutions, and the discussions that invariably ensue where this method is adopted are calculated to impress the subject matter far more indelibly upon the mind than if working entirely on their own account. Further, the exchange of *practical* knowledge that each student may have gained in his particular firm on different subjects, accounts and audits, will be very valuable. One man may have an excellent knowledge of Excess Profits Duty and Income Tax generally, whilst another may have had no practical experience of the same, but is fully cognisant of Deeds of Arrangement, &c., hence an exchange of ideas will be invaluable to both. Having completed his course, the student is advised not to work right up to the last moment—his brain will be much clearer, and he will be far more likely to do himself justice if he has a day in the open away from all books before the examination.

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Finally, just a few words of advice as to the examination itself. Read your paper carefully through, and always tackle the *easiest* question first; it is a mistake to attempt a long and difficult question to commence with, for if you don't happen to come out right the first time, you are probably horror-struck to see how much time you have spent upon the question; you break out into a cold perspiration, and your nerves are probably severely shaken, and the remainder of the paper is badly done. If, on the other hand, you do the easiest question first, and are quite satisfied with yourself, you regain the self-possession which so often deserts you on entering the Examination Hall, and you are then in a much fitter condition to undertake the rest of the paper, and will, therefore, do it much better. Always commence an answer on a separate sheet of paper; it so often happens that on reading your answer through before giving in your papers you find you have left out some very important points, which can easily be added if space has been left as suggested.

Be careful that you give up all your papers to the examiner. We remember a case where a candidate placed all his answers under his blotting paper, and when he returned from lunch found he had omitted to give up several sheets! The examiner would not, however, accept them then, and the result was a failure!

If your Balance Sheet does not cast, don't make a blot over the wrong figure, thinking the examiner won't notice it; he is used to these little tricks! Always make a point of *journalising all adjustments* in working from a Trial Balance to Balance Sheet, it avoids a great deal of wasting time looking for an item you might otherwise omit to give the double entry for. Don't ink in either gross profit or net profit until your Balance Sheet casts. You may have entered an item on the wrong side, and by looking for half the amount of the error it is often traceable to this cause, and will, of course, alter your profit figures.

In the matter of accounts, be sure your *principles* are correct; mere errors of arithmetic are small things compared with errors of principle. It may happen that there are two ways of looking at an item in an accounts question; in such a case always give the examiner the point of view from which *you* have regarded the item.

In our next issue we shall publish a paper on Executorship Law and Accounts, in which special advice is given to students on these matters.

In conclusion, we should like to suggest that if any student desires advice at any time on any matter relating to his studies, he should write to the Editor of the *Journal*, who will gladly give any help within his power.

Queries and Replies.

(Correspondents who wish to make use of this column are requested to write their queries on one side of the paper only and to be as brief as possible. There is no need to enclose a covering letter if the communication is headed "Accountants' Journal, Queries and Replies column," and signed at the end with the name and address of the sender, which will not be published if the query is signed with a nom de plume.)

Exemption from Matriculation.

Can you inform me whether a person who has passed the Preliminary Examination of Chartered Accountants, and the Cambridge Junior with Honours, is exempted from the Matriculation Examination in entering for the Degrees of Commerce Examinations?—G. H.

We understand that the only certificates which will be accepted in lieu of the Matriculation Examination are the Senior Oxford or Cambridge, but it might be worth your while to apply to the External Registrar, University of London, Imperial Institute, South Kensington.

Annual List and Summary,

Is it necessary for a new company to file Form 6A Summary of Share Capital and Shares in pursuance of Section 26 of the Companies Act 1908 after its statutory meeting? Table A, paragraph 47, appears to designate a statutory meeting as an ordinary general meeting, but the articles of the company contain this clause: "The 'aforesaid general meetings—referring to the usual annual meeting—shall be called 'Ordinary' meetings; all other general meetings shall be called 'Extraordinary.' " Thus, from the reading of the company's articles, I take it that no such return is required. Can you oblige me with your opinion, please?—STUDENT.

We are of the opinion that the intention of the Act was to require the Annual List and Summary to be filed after the first or Statutory General Meeting, where that meeting is an Ordinary General Meeting, but we understand that the Registrar of Joint Stock Companies takes the view that the Statutory General Meeting is not an Ordinary General Meeting, and that consequently no return is required in respect of such meeting, although this view appears to be in conflict with Clauses 45 and 47 of Table A.

Debentures and Income Tax.

An Investment Company, whose profits, subject to taxation, include losses and sales on realisation of investments, issues Perpetual Debentures at par, with the proviso that if they become enforceable they will be repaid at 110. Owing to the state of the market, the company purchases in the open market some of its own Debentures at, say, 75, and includes same as Investments on its own books, thereby not reducing its liability. Should the difference between the purchase price and par be chargeable as profit for income-tax purposes? Also, the Investments for Balance Sheet purposes are valued at market price on date of Balance Sheet, and a reserve created for the difference between market price and cost, the auditors certifying that the Investments are fully of the value stated therein. Should these Debentures be valued at market price (say 75), or par, or 110, their worth to the company?—DEBENTURE.

We think that in the case mentioned, the purchase of the Debentures being treated in the light of an Investment, and not purchased with a view of reducing the company's liability on Debentures, there would be no obligation to bring into account for income-tax purposes the difference between the face value of the Debentures, and the price of 75, at which they were purchased on the market. This could scarcely be included under the heading of Profit and Loss on realisation of Investments. If,

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however, the purchased Debentures were actually cancelled, and the liability correspondingly reduced, then income-tax would probably be claimed on the difference between the purchase and issue price of the Debentures. We think that if carried forward as Investments, these Debentures should be included in the Balance Sheet at their purchase price, viz. 75. As the Debentures are apparently "perpetual," they would probably only become enforceable if the company went into liquidation, in which case a Receiver would take possession of the Assets upon which the Debentures were secured, on behalf of the Debenture-holders.

Transfer of Shares.

A person owns 10 £10 shares in a limited company. She wishes to have them re-registered in the names of herself and her daughter as joint and several holders. (1) What is necessary to effect such a change? (2) Is an ordinary Transfer Deed suitable, and, if so, what is the Stamp Duty thereon? (3) Would not a letter, expressing the terms, and stamped with a 10s. stamp, be sufficient? (4) If a separate deed of gift were drawn up, would the company be obliged to alter the names on inspection of the deed?—i.e. in the case of a complete transfer, as a gift, of part of the holding.
—NORMAN.

In order for a shareholder to re-register her shares in the joint names of herself and daughter, it will be necessary for a Deed of Transfer to be executed by the present holder as *transferor*, and by the same party and her daughter as *transferees*. The letter you suggest would not be sufficient. The Stamp Duty on the transfer must be *ad valorem*, the value being based on the current market quotation at the time the transfer is executed. A company would not recognise any deed of gift, and would refuse to alter their list of members unless a transfer were registered.

Correspondence.

Creditors' Accounts.

(To the Editor of The Accountants' Journal.)

SIR,—With reference to Mr. Stone's article on "Creditors' Accounts," I should like to know:—

(1) How it is proposed to deal with "balances of accounts" left over from one month to another? Supposing a creditor's account to be composed of one item, to be paid in the month following delivery, and another item, whereof only a certain percentage is payable in the month following delivery; the remainder to be paid after a certain period, or, when the goods are actually installed and in working order. How would you be able to ascertain at once the balance of the account, which particular invoice that balance referred to, and when to pay it?

(2) How to deal with items which have been mutually agreed upon to be transferred as Contra against Sales? as such a transaction would make it impossible for the Cash Book totals ever to agree with the total of the "List of Accounts for Payment."

(3) How to deal with Returns Outwards, especially in cases where goods are returned faulty after being paid for and no further purchases made from that particular creditor for some months afterwards?

With reference to the Cash Book, would not this system necessitate the keeping of a separate Cash Book, as, in my experience, accounts are continually being rendered for payment on delivery or within a short period afterwards to secure special cash discounts, and this means that there are various entries, for cash paid to creditors, intermingled with payments of wages, salaries, compensations, &c., each week.

Trusting there will be further discussions upon this article in the columns of *The Accountants' Journal*,

Yours truly,

INTERESTED.

14th December 1920.

Legal Notes.

By Albert Crew, Barrister-at-Law.

An up-to-date knowledge of recent decisions in the Courts is of the greatest value to accountants and business men and to students reading for their examinations. In this column are noted the salient features of the leading cases decided during the preceding month.

Bankruptcy.

Illegal Preference.

A debtor arranged with a particular creditor for payment of his debt in certain instalments if a general scheme, to which the particular creditor would be a party, were carried through; that arrangement conferred a privilege on the particular creditor over the other creditors to the proposed general scheme; the general scheme was agreed to; the particular creditor obtained in absence a decree on his debt acting on his particular agreement; the creditors of the general scheme suspended. It was held that the general scheme was only voidable, not void, the arrangement with the particular creditor void as fraudulent. *Munro v. Rothfield* (1920, 57 S.L.R. 501).

Protection for Members of H.M. Forces.

On the 12th April 1918 a debtor contracted a debt of £114, and on the 4th July 1918 he was granted a commission in the Royal Navy Volunteer Reserve. On 20th November 1918 judgment was given against him by default, on 3rd July 1919 he was demobilised, on 5th March 1920 a bankruptcy notice was served, and on 29th June 1920 a Receiving Order was made. The Admiralty stated that demobilised officers pass to the status of volunteers not called out for service, and do not pass out of the Force by the mere fact of demobilisation. The debtor was liable for five years' service. He claimed protection under Courts (Emergency Powers) Acts of 1914 and 1917, as extended by the War Emergency Laws (Continuance) Act, 1920, that he did not cease to be an officer until his term of service expired, or until he was formally gazetted out of the service. It was held that for all practical purposes officers who came under these regulations were regarded as having severed their connection with the service on demobilisation. A demobilised officer passed to the status of a volunteer not called up for service, and while retaining his commission, could return to civil occupation. For the purposes of the Emergency Laws, the debtor ceased to be an officer upon demobilisation, and the Receiving Order was properly made. *In re a Debtor*, No. 206 (1920, 150 L.T. 356).

Order of Adjudication Annulled. Right of Debtor to Sue in respect of his Property.

S. had a contract with the defendants for the making-up of a road, and on the 31st March 1914 he assigned in proper form all moneys coming to him under that contract to the plaintiff. Due notice of the assignment was given by the plaintiff to the defendants. In 1915 the plaintiff was adjudicated a bankrupt. He had only two creditors, and he paid them a composition of 5s. in the £, and thereupon an order annulling the adjudication was made by the Court. Previously to his adjudication the defendants had, after some dispute, paid S. direct the sum of £275 in settlement of his claim for work done under the contract. In an action by the plaintiff, claiming £275 from the defendants, they pleaded, *inter alia*, that the action was not maintainable by the plaintiff, as no order, vesting his property in him, had yet been made. It was held that as in this case the composition had been paid in full, the order annulling the bankruptcy was a final order, by which all rights in the debtor's property passed out of the Official Receiver, and as they could not remain in the air, must be taken to have vested in the plaintiff. *Flower v. Lyme Regis Corporation* (1920, 65 S.J. 133).

Set-Off.

A holder of a policy payable at the end of 28 years borrowed money from the assurance company on his policy. Before the years expired, an order was made to

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wind up the company, and the policy was valued under the Assurance Companies Act, 1909. The policy-holder then, by leave of the Court, brought an action for redemption against the company, claiming to set-off the value of the policy against his debt. It was held that Section 31 of the Bankruptcy Act, 1914 (which provides that where mutual debts between a debtor against whom a Receiving Order has been made, and a person claiming a debt under the Receiving Order, an account shall be taken, and the sum due from the one party shall be set off against any sum due from the other party) did not apply, and no set-off could be allowed. *Paddy v. Clutton* (1920, 2 Ch. 554).

Companies.

Preference Dividends are Prima Facie Cumulative.

By a special resolution of a limited company it was provided that "out of the profits of the company" the holders of "A" Preference Shares should receive "as a first charge thereon" a cumulative preferential dividend at the rate of 8 per cent., the holders of "B" Preference Shares as a second and postponed charge, a preferential dividend at the rate of 5 per cent. per annum, and provision was also made for the distribution of the balance of the profits. It was held that the dividend in the "B" shares was cumulative, the fact that it was not in terms described as such, in contrast to the dividend on the "A" shares, being insufficient to displace the general rule that preference dividends are *prima facie* cumulative. *Ferguson v. Buchanan* (1920, S.C. 154).

Reorganisation of Share Capital.

Where a company, by special resolution, reorganised its share capital in such a manner that the liability of the company to the shareholders was reduced, but the nominal amount of the share capital was not reduced, it was held that the company had rightly adopted the procedure prescribed by Section 45 of the Companies (Consolidation) Act, 1908, in order to obtain confirmation of the reorganisation scheme. *Peebles Hotel-Hydropathic, Ltd.* (1920, 57 S.L.R. 280).

Priority as to Capital; Right to Participate in Surplus Assets.

A company was incorporated in 1916 with a capital of £5,000 divided into 4,000 Cumulative Preference Shares of £1 each, and 1,000 Ordinary Shares of £1 each. By the memorandum, the Preference Shares entitled the holders to a fixed cumulative dividend of 7 per cent. per annum on the amount paid up on the shares, and to repayment of capital before any dividend was paid or capital repaid to the holders of Ordinary Shares. All the capital of the company was issued, and the shares fully paid. It was held that the provision in the memorandum was only directed to a case where the assets were insufficient to repay capital. It did not operate to prevent the preference shareholders from asserting their statutory right to participate with the ordinary shareholders in any surplus assets which there might be. *Anglo-French Music Co. v. Nicoll* (1920, 55 L.J. 456).

Objects Conducive to Main Objects.

At an extraordinary general meeting of a company formed for the purpose of carrying on the business of chemical manufacturers a resolution was passed enabling the directors to distribute £100,000 for the furtherance of scientific education and research. The company took power in its memorandum to do all such business as might be incidental or conducive to the objects of the company or any of them. It was held that the objects provided in the memorandum to do all such business as might be incidental or conducive to the attainment of the objects of the company meant that it must be incidental or conducive to the paramount object for which the company was formed. The evidence was that the expenditure voted by the company would be for the benefit of the community, and also of the company, and was likely to lead to the direct advantage of the company, as the company had great difficulty in providing the right class of men necessary for the proper conduct of the business, and this expenditure would bring into existence an efficient body of men from which the company could recruit men for the work. In consequence, the Court held that the resolution was not too general, and that no order ought to be made to restrain the company from acting upon the resolution. *Evans v. Brunner, Mond & Co.* (1920, 65 S.J. 134).

Legal Notes.

Criminal Law.

Official Secrets and Wrongful Retention of Government Plans.

The provision in Section 2 (1) (b) of the Official Secrets Acts, 1911 [which provides that if any person retains the sketch, plan, model, article, note, or document in his possession or control when he has no right to retain it, or when it is contrary to his duty to retain it, shall be guilty of a misdemeanour] making it an offence for any person to retain possession of certain plans when he has no right to do so, is not confined to plans used in "prohibited places" as defined by Section 3 of the Act. *R. v. Simington* (1920, 37 T.L.R. 114).

Contract.

Scope of Authority of Estate Agent.

The mere employment of an estate agent by an owner to dispose of a house confers no authority to make a contract; the agent is solely employed to find someone to negotiate with the owner; but, if the agent is definitely instructed to sell at a certain price, those instructions involve authority to make a binding contract, and to sign an agreement. But the authority is limited to signing an open contract, and does not authorise the agent to sign a contract with special conditions, e.g. as to title, with which it is no part of an estate's duty to deal. *Keen v. Mear* (1920, 2 Ch. 574).

Liability of Servant of the Crown to be Dismissed Without Notice.

A Crown servant, against whom no misconduct is alleged, is liable to dismissal at the pleasure of the Crown without notice, even if the form of agreement under which he has been engaged implies that except in case of misconduct, the engagement can be terminated only by notice. *Denning v. Secretary of State for India* (1920, 37 T.L.R. 139).

Agreement for Punctual Payment of Interest.

Where an instrument clearly expresses payment to be made punctually on a day stipulated, that payment is not so made, unless it is made on that day. *MacLaine v. Gatty* (1920, 37 T.L.R. 139).

Statute of Limitations and Written Promise to Pay.

In an action in which the defendant pleaded the Statute of Limitations, the Court held that in the defendant's letters, which contained words of hope and expectancy about his being able to pay the debt, and which also contained expressions amounting to an admission of debts, the particular words of hope and expectancy were not enough to qualify the admission, and that, as there was an unqualified admission, a promise to pay must be implied. *Fettes v. Robertson* (1920, 37 T.L.R. 80).

Landlord and Tenant.

Dwelling House Reasonably Required as a Residence and Alternative Accommodation.

Under the Increase of Rent and Mortgage (Restrictions) Act, 1920, Section 5, (1), there must be evidence of deterioration of the premises to enable a landlord to rely on Clause (b) [which provides that a landlord is entitled to judgment for the recovery of possession when the condition of the dwelling house has, in the opinion of the Court, deteriorated owing to acts of waste by or the neglect or default of the tenant] (2), the dwelling house must be reasonably required within Clause (d) at the date of the hearing of the application for possession, and (3) the primary onus of proof of alternative accommodation is upon the landlord, and not upon the tenant. *Neville v. Hardy* (1920, 65 S.J. 135).

Amount of Statutory Rent and Payment or Charge for Attendance.

The Increase of Rent Act, &c. of 1920 (*supra*), Section 12 (2) (a) provides that the Act shall apply to a house or part of a house set out as a separate dwelling, where either the annual amount of the standard rent or the rateable value does not exceed (a) in the Metropolitan Police District, including the City of London, £105, provided that this Act shall not, save as otherwise expressly provided, apply to a dwelling-house *bonâ fide*, let at a rent which includes payments in respect of board and lodging and attendance, or use of furniture. By an agreement, dated 25th June 1917, a tenant covenanted with the landlord to pay a yearly rent of £75 for a flat for the first year, and £100 during the second and third years, and, moreover, to pay the sum of 10s. weekly throughout the tenancy for service. It was held that the rent of the premises was below the sum of £105 a year, and within the statutory limit of

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Section 12, Subsection 2 (a) *supra*, as the rent was not inclusive, but exclusive of stipulated payments for attendance, and, therefore, the landlord was not entitled to an order for possession. *Wood v. Wallace* (1920, 65 S.J. 135).

Master and Servant.

Compensation for Suicide as the Result of an Accident.

When a workman commits suicide by reason of insanity resulting from an accident arising out of and in the course of his employment under the Workmen's Compensation Act, 1906, his dependents are entitled to compensation if the suicide was a result of the accident, and not a result of the brooding over the injury received. *Marriott v. Maltby Main Colliery Co.* (1920, 37 T.L.R. 123).

Septic Poisoning as the Result of the Cumulative Effect of a Series of Minor Accidents.

A woman employed in finishing copper shell adaptors incurred, owing to the nature of the work, a series of minor scratches and abrasions on her hands, which were commonly followed by gatherings leading to blood poisoning. In her case the poisoning gradually infected her whole system, and she was ultimately totally incapacitated by resulting osteo-arthritis. It was held that she was entitled to compensation under the Workmen's Compensation Act, 1906, though it was not possible to support the finding of the County Court Judge, that her condition was due to one particular accident on a certain date. The injury was due to the cumulative effect of a series of minor accidents, no one of which alone would probably have caused it, and it was unnecessary to fix the exact time when the poisonous germ entered the system. *Selva v. Burrell* (1920, 65 S.J. 133).

Negligence.

Duty of Conductor of Tramway Car.

The mere fact that a tramway car has been started from an optional stopping place through the bell being pulled by a passenger in the absence of the conductor, does not render the tramway owners responsible for injury thereby occasioned, unless it is shown that in the circumstances the non-control of the bell by the conductor amounted to negligence. *Wagner v. West Ham Corporation* (1920, 37 T.L.R. 86).

Railways.

Goods Carried at Owner's Risk.

In an action by an owner for loss of his goods entrusted to a railway company for carriage "at owner's risk," that is, when he agrees to relieve the company from all liability for loss, misconveyance, misdelivery, delay, or detention of the goods, except upon proof that such loss, damage, misconveyance, delivery and detention arose from the wilful misconduct of the company's servants—if no circumstances from which such wilful misconduct can fairly be inferred, are disclosed from the company's inability to account for the loss, and the result is that the evidence is equally consistent with liability or non-liability on the part of the company, the burden of proving such wilful misconduct still lies upon the owner. *Smith v. Great Western Railway* (1920, 37 T.L.R. 117).

Wills and Executors.

Right of Wife to let House which has been Allowed to her to Possess Rent Free.

A testator directed his trustees, in the event of his wife's surviving him, "to allow my said wife to possess rent free, during the whole period of her survivance of me," the family dwelling-house, along with the whole furniture and furnishings therein, and after the payment of certain legacies, to realise and divide the remainder of his estate between his children. It was held that the wife was entitled to let the house furnished or unfurnished during her lifetime, and liable for payment of the feu duty, proprietor's rates and taxes, repairs, and insurance. *Milne's Trustees v. Milne* (57 S.L.R. 372).

Validity of Infant Legatee's Consent.

Where a testator shows an intention that a power given to a legatee to consent to a re-settlement by trustees shall be exercised during minority, such power can be effectually exercised by a minor. *In re Sutton* (1920, 65 S.J. 155).

Monthly Calendar.

- January 5th, Wednesday.*—BRISTOL CHARTERED ACCOUNTANTS STUDENTS' SOCIETY.—Mock Shareholders Meeting, 8 p.m., at Stuckey's Restaurant, Bristol.
- January 6th, Thursday.*—LEEDS AND DISTRICT CHARTERED ACCOUNTANTS STUDENTS' ASSOCIATION.—Lecture, "Excess Profits Duty," by Mr. E. Duncan Taylor, A.C.A., 6.30 p.m., at 7 Bond Place, Leeds.
- January 10th, Monday.*—BIRMINGHAM AND MIDLAND SOCIETY OF INCORPORATED ACCOUNTANTS AND STUDENTS' SOCIETY.—Lecture, "Partnership Accounts," by Mr. A. C. Ridgway, A.C.A., at The Library, County Chambers, Corporation Street, Birmingham.
- January 11th, Tuesday.*—INSTITUTE OF INDUSTRIAL ADMINISTRATION.—Lecture, "The Measure of Output in Agriculture," by Mr. W. J. Malden, illustrated by film and demonstrations, 7 p.m., in Conference Hall, Central Hall, Westminster.
- January 12th, Wednesday.*—GLASGOW CHARTERED ACCOUNTANTS STUDENTS' SOCIETY.—Lecture, "Farm Accounts," by Mr. A. Murdoch, C.A., 7.30 p.m., at 218 St. Vincent Street, Glasgow.
- NOTTINGHAM CHARTERED ACCOUNTANTS STUDENTS' SOCIETY.—Lecture, "Sale of Goods," by Mr. E. Huntsman, Solicitor.
- January 15th, Saturday.*—YORKSHIRE STUDENTS' SOCIETY OF THE INSTITUTE OF MUNICIPAL TREASURERS.—Annual Meeting, 3 p.m., at Leeds.
- January 17th, Monday.*—BIRMINGHAM AND MIDLAND SOCIETY OF INCORPORATED ACCOUNTANTS AND STUDENTS' SOCIETY.—Lecture, "Sale of Goods Act," by Mr. F. S. Saville, LL.B., Solicitor, at The Library, County Chambers, Corporation Street, Birmingham.
- WEST OF ENGLAND SOCIETY OF INCORPORATED ACCOUNTANTS.—Lecture, "Elements of Statistics," by Mr. Hubert Phillips, B.A., 5.30 p.m., at Royal Hotel, College Green, Bristol.
- January 19th, Wednesday.*—GLASGOW CHARTERED ACCOUNTANTS STUDENTS' SOCIETY.—Lecture, "Mechanical Aids in Offices," by Mr. J. Stamper, 7.30 p.m., at 218 St. Vincent Street, Glasgow.
- January 20th, Thursday.*—LEEDS AND DISTRICT CHARTERED ACCOUNTANTS STUDENTS' ASSOCIATION.—Lecture, "Examination Costing Problems," by Mr. E. Miles Taylor, F.C.A., 6.30 p.m., at 7 Bond Place, Leeds.
- January 24th, Monday.*—MANCHESTER CHARTERED ACCOUNTANTS STUDENTS' SOCIETY.—Joint Debate with Liverpool Students' Society.
- January 25th, Tuesday.*—INSTITUTE OF INDUSTRIAL ADMINISTRATION.—Lecture, "News and its Influence on Output," by Mr. H. S. Ryland, F.O.S., 7 p.m., at 110, Victoria Street, S.W. 1.
- January 26th, Wednesday.*—SOUTH WALES AND MONMOUTHSHIRE CHARTERED ACCOUNTANTS STUDENTS' SOCIETY.—Lecture, "Negotiable Instruments," by Mr. Barnett Janner, B.A., 7.30 p.m., at 5 High Street, Cardiff.
- January 27th, Thursday.*—NOTTINGHAM CHARTERED ACCOUNTANTS STUDENTS' SOCIETY.—Joint Debate with Sheffield Chartered Accountants Students' Society.
- January 31st, Monday.*—WEST OF ENGLAND DISTRICT SOCIETY OF INCORPORATED ACCOUNTANTS.—Lecture, "Elements of Statistics: Definitions and Illustrations," by Mr. Hubert Phillips, B.A., 5.30 p.m., at Royal Hotel, College Green, Bristol.
- SCHOOL OF ACCOUNTANCY STUDENTS' ASSOCIATION (LIVERPOOL BRANCH).—Lecture, "Building Societies in their Relation to Industrial Progress," by Mr. Jas. Macphail, Manager of the Liverpool Investment Building Society, at 7.30 p.m., Overseas Club, Church Street, Liverpool.

Students' Society Notes.

Sheffield Chartered Accountants Students' Society.

All our meetings fixed for the Autumn Session have now been held, with the exception of the debate on December 15th, which we will report in our next month's issue. The following lectures have been held since our last report :—

November 17th.—Mr. W. R. Moore, F.I.A., in his lecture on "Annuities and Sinking Funds," rubbed up the knowledge of algebra latent in the minds of many of our students. His lecture was illustrated by many algebraic calculations on the board, which decided many students against taking actuarial science as an optional subject in the Final Examination, and made all profoundly thankful that this science is optional, and not compulsory.

November 24th.—Mr. R. M. F. Gill, A.C.A., a member of our Society, gave an instructive lecture on "Receiverships," chiefly dealing with Receivers appointed by the Court. He spoke from sound practical experience, and read Orders of the Court in several cases. He dealt at length with the Appointment of the Receiver, and the Taxing of Costs.

December 1st.—Mr. G. H. Knighton, A.C.A., a former Secretary of our Society, and a Final Honours man, gave a lecture entitled "More Examination and Practical Points." He confined his remarks to the vexed question of depreciation, and the use of graphs. His graphs were carefully prepared, and his remarks lucid, and his audience, deplorably small as it was, fully appreciated the significance of the points enumerated.

December 8th.—This was the occasion of a very enjoyable discussion on the November 1920 Intermediate Examination Questions, at which Messrs. B. E. Brown, A.C.A., and F. Downing, took a leading part.

The Leicester Chartered Accountants Students' Society.

Since our last issue the following meetings have been held :—

November 17th.—Lecture, "Preparation for the Institute's Examination," by Mr. B. G. Vickery, A.C.A.

November 24th.—Lecture, "A Few Notes on Money and the Foreign Exchange," by Mr. H. W. Naish, M.B.E., A.C.A.

December 1st.—Lecture, "Principles of Economics," by Rev. R. F. Rattray, M.A., Ph.D.

December 8th.—Lecture, "Capital: What it Is and Does," by Mr. P. D. Leake, F.C.A.

A more detailed account of these lectures will appear in due course. The Committee have arranged an excellent programme of meetings for the New Year, and it is hoped that all students will join in supporting their endeavours.

South Wales and Monmouthshire Chartered Accountant Students' Society.

We wish all our members a Happy and Successful New Year! and may the second Wednesday in January bring nothing but good news to some of them!

Mr. Wentworth H. Price, F.C.A., President of the Senior Society, presided at a meeting of our Society on 26th November, when we were edified by three of our past members, who have now ascended to the seats of the qualified ones. Mr. E. L. Pope (of Newport), read an excellently worded paper on "Excess Profits Duty," and Mr. Clifford Munn discussed the ruling in *Binney v. Inland Revenue*. Then Mr. R. G. White, protesting that it was almost impossible to find an original subject, regaled us with a treatise on "Bookkeeping for Burglars." (We hope that Mr. Editor may insert portions of it in a future issue.) A useful discussion followed.

The Ten Minute Paper Competition results are to be announced at a meeting to be held on 17th December. Messrs. Wentworth H. Price and H. S. Metcalf are the adjudicators, and we are anticipating an interesting evening.

It is hoped that the Tuition Classes will re-commence on 1st January. Our numbers are increasing, and an extension of the syllabus is foreshadowed.

The Profession of Accountancy.

Speech by Sir John Simon at London Students Dinner.

"A profession is a pursuit which is followed not solely as a livelihood but always subject to over-riding duties, prescribed by a code of professional honour involving in an especial degree the strict observance of confidences, in which the work that we do must be rendered to our clients without stint in proportion to our clients' need rather than in proportion to the reward which we receive."—Sir John Simon.

THE RT. HON. SIR JOHN SIMON, K.C.V.O., K.C., in proposing the toast of "The Chartered Accountant Students Society of London," said: I may fairly claim that this is the toast of the evening; certainly it is the toast of the Society which is the occasion of our meeting to-night. So much has been said already about the character of the profession of accountancy that it is a little difficult to avoid touching on topics which have already been treated. As Mr. Cash said, this great profession attends mankind from the cradle to the grave. It guides the schoolboy, who, in a desperate attempt to explain a deficit in his petty cash, is moved to deceive his fond parents by the entry, S.P.G., 6d., but is ultimately forced to explain that "S.P.G." merely means, "Sundries, Probably Grub." (Laughter.) It consoles the harassed taxpayer in resisting the exactions of Mr. Wilkins and an unrighteous Treasury, when dealing with unpleasant buff-coloured forms, until the great profession of accountancy almost succeeds in making the income-tax intelligible. (Laughter.) Not only so, but it attends, on the invitation of our executors, as we pass away from this mortal scene, in order to render our last strict account in another place to Rhadamanthus, who, in my imagination, presents a countenance, genial, benignant, but exacting, very much of the appearance of Sir William Plender's—(laughter)—for our dying hope is that we may appear with our original vouchers examined, certified and found correct. (Laughter.) One of the features of the great profession of accountancy which has always filled me with interest and surprise is the calmness with which it deals with every situation that arises. It intervenes with equal authority and complete equanimity alike in prosperity and in adversity. It calculates super-tax without envy—(laughter); it winds up a bankrupt's estate without remorse. (Laughter.) It is a profession which is continually extending the bounds of its usefulness. It is not so long ago that on the occasion of the annual audit at an Oxford College there was a destructive fire in the kitchen of that institution, which, on investigation, was found to be due to the circumstance that the Warden and Fellows were busily engaged in cooking the accounts. (Laughter.) How far back does this cool, remorseless investigation of our financial affairs extend? I do not recollect any reference to Chartered Accountants in the Bible, unless you include the unfortunate experience of Pharaoh's baker, whose stocktaking was so unfairly interfered with by birds from heaven, or the reprehensible but very human action of the unjust steward, who, when he could not get his sum to add up rightly, cut the knot by urging his master's debtor to sit down quickly and write "fifty"—(laughter)—but those gentlemen existed long before the days when the high standards which now prevail with the

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professional accountant were part of the burden which had to be borne by frail humanity. I was reading the other day an old and very interesting historical book, Fuller's "Church History," and I saw in the chapter which gives an account of the administration of abbeys in this country before the abolition of the monasteries this illuminating passage; old Fuller writes, with reference to the administration of various charities by the Dean and Chapter of St. Paul's, "However, we may take notice that herein the Dean "and Chapter of St. Paul's were both their own accountants and their "own auditors, and, consequently, none can dispute their reckonings "therein." (Laughter.) Then says he, "It is to be noted that in this "their duty they only brought in their bare annual rent of houses, the "fines not being charged to their account, but swallowed in silence, to the "great commodity of the Dean and Chapter." (Laughter.) That was long before the C.A.S.S. of London had got their eye on the proceedings of every public body. To come to comparatively modern times, there was once a Chancellor of the Exchequer who presided over our finances with dignity and success, but who was constrained to inquire of the Permanent Under-Secretary what was the meaning of decimal points and to declare that while he understood the whole of the national finance, he wanted to know what was the meaning of "those damned dots." (Laughter.) But that was long ago; that was in an age when a Chancellor resigned in the interests of economy. (Loud laughter.) If we may presume to look into the future, there is, I dare say, even to-day, still room for improvement, from the point of view of the professional accountant, in the methods adopted in the statement of our national Balance Sheet. Some day, perhaps, we shall in these national accounts distinguish between capital and income. (Laughter.) The day may dawn when we shall cease to regard the Disposals Board as a vastly profitable revenue department merely on the ground that it sells off second hand, at reduced prices, accumulations of stores for which another Government department had only paid with borrowed money. (Laughter.) This will be one of the tasks which perchance may fall to the present members of the Students' Society here assembled. I should like in a few serious words to recall to your minds a fact insisted upon in every speech to-night, that the occupation of accountancy claims, and is entitled to claim, to be a great profession, and, when I say that it is a profession, I do not solely mean that it is one of those occupations which escapes, under Section 39 of the Finance Act (No. 2), 1915, the inconvenience of accounting to the Special Commissioners for Excess Profits Duty. (Laughter.) It would ill become me, in an assembly actuated by the strictest professional standards, to offer a legal opinion without being paid for it—(laughter)—but I have sometimes been asked, in return for a reasonable consideration, to explain to anxious inquirers what precisely is meant by a profession that escapes that pernicious impost. I shall not attempt a definition, but I would suggest to you here three tests. First of all, a profession essentially involves this, that it is based on preliminary study, training, and, it may be, examination on the general principles of the pursuit. In the second place, a profession, I venture to think, essentially involves this, that the profits which may be made from its pursuit do not primarily depend upon the command of great quantities of capital; thirdly, and most important of all, a profession is a pursuit which is followed not solely as a livelihood but always subject to over-riding duties, prescribed by a code of professional honour involving in an especial degree the strict observance of confidences, in which the work that we do must be rendered to our clients without stint in proportion to our clients' need rather than in proportion to the reward which we receive. (Applause.) I venture to think that those are three tests by which the great acknowledged professions of our time may fairly be judged, and it is because, from such experience as I have had of the profession of accountancy, I am well assured that it satisfies those three tests, that it is so especially a pleasure to propose the toast entrusted to me to-night. (Applause.) I

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suppose there are here many men who are just on the threshold of their professional careers. Most of them probably have postponed their immediate personal advantage in order to do their duty on behalf of the country during the years through which we have passed. (Applause.) Some of those comrades and colleagues who shared that dread adventure with them will never return, but to those of you who are destined to inherit a great tradition and to carry it forward, I would venture to say that success in all the great professions depends essentially on qualities which are at the command of character. There are some incidental assistants which aid individual effort, such as a good digestion, one of the most valuable qualifications for the pursuit of any learned or exacting profession. (Laughter.) Apart from convenient physical attributes, success in any great profession, I make bold to say, depends upon one's realising that here is a career that is open to talent, that talent for practical purposes depends far more on individual energy and unswerving rectitude than upon any exceptional accomplishment of mind, and that as long as a man has good courage and a stout heart, is really imbued with the feeling that he is carrying on a great tradition and is determined to do his duty whatever may befall him, he may count with confidence upon earning an honoured place in the ranks of those whom he has joined. It is therefore with especial pleasure that I propose to you the toast of "The Students' Society," and with it I am permitted to couple the name of a gallant gentleman, Mr. F. J. B. Gardner, M.C., the chairman of your committee, and I call upon this company with enthusiasm to drink health and prosperity to the Students' Society. (Applause.)

Mr. F. J. B. GARDNER, A.C.A., in acknowledging the toast, said: "It is my privilege as Chairman of the Committee, to reply to this toast, and my duty is doubly difficult; firstly, I follow a Chairman who, as a Special Constable, became a skilled rhetorician; and secondly, two ladies had joined the Society during the year, and I, being of a shy and nervous nature, feared it might be my duty to welcome them here this evening." After welcoming the ladies to the Society, he continued that it was usual for them on this occasion to review the past, repent for their sins, and look to the future. He referred to the current programme of lectures, which he suggested was one of the best they had, and in particular he mentioned the joint debate with the Chartered Secretaries Students. Turning to Finance, he reminded the audience that last year they ended with a balance on the wrong side, in spite of the generous help of the Institute. They had, however, just learned that the Council had granted them the same amount as they did last year, for which they were very grateful. "We are glad," he said, "that the Council has not paid too much attention to the glaring headlines in the newspapers referring to 'retrenchment.'" (Laughter.) He appealed again for the continued help of the honorary members. He referred with some pride to their Coaching Classes. At the May Examination every candidate they entered for the Final passed, including 2nd place Honours, and in the Intermediate they obtained 3rd place. "There is no need for students to travel beyond the limits of the City, for very successful Coaching Classes, which I am credibly informed will save some £3 in travelling expenses, and which articulated clerks cannot charge up in their "super-tax returns." The speaker made reference to the new Committee of the Council which had been formed to arrange lectures for London members. He expressed his regret at the resignation of Mr. Northcott during the year. In conclusion, he wished to acknowledge the very valuable services of their President. Sir William Plender in no way regarded his position of President as a sinecure, and at all times, and in all seasons, his advice and counsel were readily given and frequently sought, and he desired to express to him the Society's grateful thanks.

Business Organisation.*

By A. Cathles, O.B.E., C.A.

Organisation means the creation of methods by which things may be done systematically. Mr. Cathles here describes practical methods, which when introduced into business have been found to give the best results in efficiency and success.

Ninety per cent. of the business of this country is run on haphazard lines, and the trouble is that everyone considers that his own business is to be reckoned as forming part of the remaining 10 per cent. which may be said to be run efficiently.

Now, efficiency means doing work in the best possible way, with the best obtainable appliances, in the most up-to-date manner, with the least possible effort, at the lowest possible cost, and, above all, according to the best possible plan. It results in the elimination of waste of all kinds—waste of time, waste of energy, waste of matter—in fact, it stops waste of wealth.

The average British business man is so conservative that he cannot see that the methods of his grandfather are not the methods that will best meet the conditions of the business life of to-day. He is content to believe that what has served his purpose for the past ten, twenty, thirty, or forty years is good enough to serve it still, and yet he will wonder why it is that his younger competitors can make not only a living but can seriously menace the position he himself has held in the business world for so long. He does not realise that his ways are old-fashioned and his methods out of date as compared with the ways and methods of five years ago, and antediluvian in comparison with the methods of to-day. He, travelling in a stage coach, expects to out-distance his rival who is in an aeroplane. To use an Americanism, he is dead but he doesn't know it.

It was commonly said a few years ago, when motor traction began to come into its own in our streets, that there were two classes of people, the quick and the dead. So in business that counts to-day, there are only two classes—the one that is awake to the benefits to be derived from up-to-date methods, and the other that is suffering from the sleeping sickness with which the ways of yesterday are infected.

The business of yesterday is probably one which started from a very small beginning and outgrew its original inelastic organisation—the grip and ability of its founder; for the organisation of a small business is wrapped up in the brain of its chief. He can supervise all its activities; he can direct all its energies; but gradually, as it grows, first one of its functions demands more and more of his attention, then another and another follow suit, until, while endeavouring to control everything, he more and more fails to control anything, and the result, sooner or later, according as the ability of the chief is small or great, must be reduced efficiency all round. A wise man will recognise his inability to continue effectively to control a growing business, and will create such an organisation as will provide for all contingencies as the activities of the business expand, and upon the elasticity of that organisation the success of the future will depend.

* A lecture delivered to the Office Machinery Users Association on Thursday, 21st October 1920, Mr. A. G. Seaman in the chair.

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All businesses may be said to be made up of functions, and to the proper control and performance of these functions must be directed the energy of the executive authority. It is apparent that no one man, however able he may be, can hope by himself to control all of the functions of a business of even moderate size, and that he must therefore call upon the assistance of others. In the choice of these others there lies the fate of any business. In home life one does not employ a doctor to mend a burst water-pipe, or a gardener to cook the dinner—one realises that a pipe requires to be mended and that meals have to be cooked, and then decides upon the parties likely to give the greatest satisfaction in the performance of the respective duties.

In business similarly it is necessary first to determine the functions to be performed and their inter-relation, and then to place in charge of each function the man best qualified to control the performance of it.

A manufacturing business may be reckoned as consisting of the following six functions :—

- (1) The purchase of the raw material, component parts, and other commodities necessary to enable the work to proceed—the Purchasing function.
- (2) The conversion of the raw material into the finished product of the business—the function of Production.
- (3) The check upon the conformity of the finished product to specification—the function of Inspection.
- (4) The sale of the finished product—the Selling function.
- (5) The recording of the goods received, manufactured, and despatched, and of services rendered, and of all transactions in money or money's worth—the Accounting function.
- (6) The receipt, custody, and disbursement of funds, and the control of all sundry services not directly attributed to any other function—the Secretarial function.

Having determined these functions, one has taken the first step towards creating an organisation for the business, but it is only the first step of many and is comparatively easy. The next step is to decide upon the men to be appointed to control these functions, and what their relations to each other and to the fountain head of the business are to be. In an average sized factory there will be found to be sufficient work in the control of each function to occupy the time and talent of one good man, while in smaller factories it may be found advisable to combine two functions under one responsible official. Where such combination is found desirable the first two functions to be amalgamated would be those of accounting and secretarial; next, production and inspection; and, lastly, purchasing and selling. Beyond that, amalgamation of functions is bound to result in loss of efficiency.

The organisation of a manufacturing concern has been taken for illustration purposes, because it affords the most complex organisation of all, and because the organisation of any other commercial business may be arrived at therefrom by the elimination of the inappropriate functions. For instance, the organisation of a merchant's business would comprise :

Purchasing Department,
Sales Department,
Accounting Department,
Secretarial Department,

that is, there would be eliminated the functions of production and inspection, though, as will be seen later, some of the duties undertaken by the Production Department in a factory may require to be transferred in a merchant's business to the Purchasing or Sales Department, or may assume such proportions as to become in themselves functions requiring departments unto themselves.

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Businesses should be departmentalised according to functions, and at the head of each department should be placed an official who would be responsible only to the one man—general manager, managing director or proprietor, as the case may be—who is finally responsible for the conduct of the whole business.

It is not sufficient to determine the functions according to which the business is to be departmentalised and to appoint the departmental managers, for if that were all that an executive did towards organisation the departmental heads would be left to place their own definitions upon the duties of their own sections, and the result would be chaos; for no matter how excellent these men might all be there would always arise amongst such a body of individuals a more or less insensate jealousy, and there would always be at least one who considered that another was encroaching upon the functions of his department. Thus it becomes necessary, to avoid any misunderstanding of duties, that the extent of such duties be clearly defined when the organisation is created.

What, then, may be considered the exact limits of the duties of each of the departments specified in the factory illustration already mentioned? They may be stated to be as follows:—

The Purchasing Department will receive from the appropriate section of the Production Department demands, duly counter-signed as sanctioned by the appropriate official, for the purchase of definite quantities of specified materials or stores, and its only duties will be to purchase such commodities in the best markets, to keep proper records of the orders placed and the deliveries received in respect of these orders, to take such steps as may be necessary to ensure that the goods ordered are delivered to time, to take up with suppliers all questions of deficiencies in quality and quantity, and to pass to the other departments concerned (these would be the Stores Section of the Production Department and the Stores Section of the Accountant's Department) such advices by way of copies of the purchase orders as may be required by these sections to enable the storekeeper to identify the goods as they are delivered and the stores accountant to pass the suppliers' invoices for payment. In many factories the value of material consumed each week is in excess of the payroll, and in most factories the post of purchasing manager is a most responsible one. Almost more than any other official is he subject to temptation, and, accordingly, his integrity should be beyond question and his remuneration substantial.

All departments of a business must have their own organisation, and the Purchasing Department is no exception to that rule. It is the duty of the departmental managers to look upon their departments almost as businesses in themselves, and to frame their organisations accordingly. In a small business where one man can overtake the whole of the purchasing the organisation will be of the very simplest, but where the volume of work is considerable some of the duties will have to be delegated, and upon the manner in which this is done will depend the success of the department. In large businesses the services of several buyers will be required, and it may be accepted that the best division of the work will be obtained if each buyer is allotted one or more definite classes of material to purchase, and, of course, the best results will be forthcoming if each buyer has an intimate knowledge of the commodities with which he is dealing. Opinions will differ as to how that intimate knowledge may be obtained, but it is suggested that close investigation of the source and methods of production will prove of great service.

The next department upon the organisation chart is the Production Department, which may be said to be more complex in its organisation than any of the others. Primarily, the duty of the works' manager who is at the head

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of this department is to manufacture articles or goods in such quantities as the executive authority of the business may direct, but the work entailed therein comprises a great deal more, if it is to be economically performed, in fact if it is to be done at all, than merely telling a foreman to get on with the job. Accordingly, although we find that the departments or shops actually engaged upon production form the main section of this department, there are also to be found various subsections engaged upon work which is not directly productive but which is necessary before the work in the shops can be begun. (For the purposes of illustration, an engineering concern has been chosen, as the organisation of its Production Department presents greater complexity than most others, and the organisation of any other factory's Production Department can be arrived at by the elimination of the sections which do not apply.) First of these subsections may be placed the Planning and Progress Section, whose duties are to see that the necessary material is on hand or to advise the storekeeper to instruct its purchase; to see that the requisite drawings, specifications, and instructions are made available for the foremen; to decide in which shops, on which machines, under which foreman, when, and how, the work is to be done. In fact, this section prepares the plan of campaign as it were, and in due course it will issue the definite instructions to the foreman concerned to proceed with the work. Further, when the job has been started it is the function of this section to watch and record its progress, and if it should fall behind the time-table laid down for it is again the duty of this section to take such steps (in consultation with the officials affected) as are necessary to ensure as far as possible that the work will be finished within the scheduled time. It will be appreciated that the Planning and Progress Section must be staffed by men who are experienced in all the operations and processes of the factory, men who know the speeds of the machines, the capacity of the workers, and all the other of the hundred and one things a man must know if he is to get the greatest possible efficiency out of a factory.

The second of the subsections of the Production Department is that which attends to the engagement of the workers—the Labour Section—and in charge there must be a man for the male workers and a woman for the female workers. Again, the services of specialists are called for—this time, specialists in human nature, in local rates of wages, in Home Office and trade union regulations and restrictions.

One would imagine that in this section there is little room for organisation, but there is some scope. The duty to be performed is primarily the enrolment of workers required in the factory, and even this must not be done in haphazard ways. This section cannot be expected to know from day to day just what the labour requirements are, unless it is advised of them by the other sections of the Production Department, and, therefore, a proper system of advice and record must be created. The procedure to be aimed at is for the foreman who wants additional workers to make out in writing a request to the Labour Section to engage them, but some safeguard against the employment of superfluous hands is necessary, and this is obtained by the system requiring the countersignature of the works' manager to the form of request. With this latter official, with his greater knowledge of the work that is ahead, must rest the decision as to the necessity for the employment of additional labour. In any case where he reduces the number of men called for he should only do so after consultation with the foreman concerned. A secondary duty of the Labour Section is to keep records of the workers in such a manner that the full history of any worker (past or present), so far as that particular firm is concerned, can be seen at a glance; and it will be realised that even in the keeping of this record there is scope for method in the manner of filing—in the separation of the records of past workers from those of the present workers; in the recording of lost time, of changes in rates of pay, of transfers from one department to another, and so on.

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The third subsection of the Production Department—the Welfare Section—is charged with the well-being of the workers during working hours and with the healthy entertainment of them in their leisure hours. This section in its turn calls for the attention of the organising mind. The work performed by it is work which has only become common during the last ten years, and so far little or no attention has been paid by the heads of businesses to the details of its organisation. Gradually, however, it is being realised that this work has a direct bearing upon the efficiency of the workers, and that if properly organised, this section can do much to assist in the proper management of an industrial concern. The effect of its activities on lost time, on sickness, on industrial fatigue—in fact, generally on production, should be the subject of close study by the head of the section, and for this purpose a system of reports on these matters to this section should be arranged. The services of a specialist to control the activities of the section are again called for—this time, a specialist in tact more than in anything else.

Subsection number four is the Drawing Office, which is responsible for the working drawings of all articles to be made and all tools to be used; and even in this section there is room for organisation in the filing of drawings made and the recording of same in such a manner as will enable the chief draughtsman to ascertain readily where any drawing is, what improvements or alterations have been made, when it was last used, as well as the output of each draughtsman on his staff.

The Engineering Section comes next on the list of the Production Department subsections, and its duties comprise the supervision of all machinery and power transmission plant, as well as of the power supply; the repair and maintenance of the machinery, together with the installation of new machines and the necessary shafting therefor; the repair and maintenance of buildings, and the control of all new structural work undertaken by the firm's own labour. The control of the staff of this section can be efficiently maintained only if it is properly organised. There are records to be kept of the breakdowns of machines and the causes thereof, of the periods elapsing before the machines are running again, of the time spent on repair or other work, of the coal and power consumption, of the steam raised or power created and its relation to the coal consumed, of the power used by each department and by each machine therein, and of the many other activities connected with the running of the section—and all that can only be done by proper organisation.

The fifth subsection is the Tool Room, and as it is practically identical with one of the shops which are engaged on production it is not necessary now to enter into the question of its organisation.

The last of the subsidiary sections is the Stores Section in charge of the chief storekeeper, who is responsible for the physical custody of all materials, consumable stores, finished parts, and finished products of the business. His also is the duty of ensuring that adequate stocks of all raw materials, components, consumable stores, &c., are maintained so that no stoppage of any work may take place awaiting supplies. He is responsible further for checking all goods coming into the factory as to quantity and, where possible, also as to quality; for making appropriate records of same; for seeing that no materials are allowed to be taken out of store except by a duly authorised person after production of his authority; for properly recording such issues; and for checking and recording all finished parts and finished products and all scrap, &c., received into the stores from the various departments of the factory. He, above all others, is the man who can make or mar a stores system, and, although he need not be a Chartered Accountant, he should be a man with an accounting mind. It is too little realised by business men in charge of manufacturing concerns turning over large stocks how respon-

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sible a post is that of chief storekeeper, and too often does one find that official remunerated by a wage instead of a salary. Material means money—material is money—and it should be handled as carefully and recorded as accurately as pounds, shillings, and pence. One might say without hesitation and without fear of contradiction that there is greater scope for improvement in the arrangement of stores, in the accounting for stores, in the accommodation provided for stores, and in the handling of stores—in fact for the proper organisation of the Stores Section—than in any other section of the average Production Department of to-day.

One naturally comes now to the main Production Sections, that is, the shops, rooms, floors, or departments that are actually engaged upon turning out the products of the factory; and just how many sections there should be will depend upon the methods of manufacture, the number of different classes of products, the lay-out of the factory premises, or some other factor which is domestic to each separate business that may be under consideration. And the decision as to whether there will be an assistant works manager, a departmental manager, or only a foreman in charge of each, will again be governed by the conditions prevailing in each individual factory.

The actual lay-out of the factory—the allocation of the different shops to different processes—calls for the most careful consideration, demanding as it does the examination of all matters affecting production—the placing of shops engaged upon work on heavy or bulky material handy to the means of transport; the allocation of shops adjacent to the power station to processes that will be heavy on the consumption of power; and the allocation to stores of buildings suitable therefor and yet convenient to the internal and external transport systems and to the shops that will use the materials that will be carried in stock. These are only a few of the problems that confront the manufacturer when he is deciding upon the lay-out of his factory, but they are in themselves sufficient to give some indication of the need for proper attention to this one of the many sides of factory organisation. And even when the allocation of the shops is complete, there still remains the allocation of the space in each shop to the machines that are to be used therein. Is it better to place all machines of one type together in one part of the shop or to group the machines in sequence of process? Again, no hard and fast rule to govern all factories can be laid down, but it can be seen how a wrong decision even on this matter may adversely affect the efficiency of a whole shop. The ideal to be aimed at is to have the work flowing in a straight line from start to finish, but this can only unfortunately be obtained in factories specially built with this ideal in view. Every bend in the path of the flow, every yard material has to be moved further than is necessary, every foot it has to be raised, every foot it has to be lowered, means loss of time, loss of energy, loss of money, loss of efficiency.

Then there should be careful attention paid to the selection of the departmental managers, foremen, and charge hands. Are they educators or are they slavedrivers? Do they show their subordinates how to work or do they attempt to bully them into doing something they do not know how best to do? And to the machinery, as well as to the personnel, thought must be devoted. Are the machines and tools in use the best for the purpose? Would it prove an economy to scrap this machine and instal a newer type or a new machine of the same type? Would it not be well to devote the excess cost of maintaining this machine to the purchase of a machine that would be cheaper in maintenance? All these, and many, many others, are questions which arise and must be answered by the up-to-date works' manager. But the works' manager of yesterday is deaf—he cannot hear the questions; he is blind—he cannot see that so many things are requiring his attention.

In the factory with the up-to-date organisation the works' manager is daily receiving reports from the Planning and Progress Section of the production

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and the scrap of the various departments, shops, and machines; he has his rejection reports from the Inspection Department; he has his cost statistics from the chief accountant, including the cost of repairing and maintaining the various machines; he has his figures as to power consumption from his Engineering Section; and all these facts are placed before him in such a manner that he can see at a glance the points that call for his attention. And each of these points is a point of interrogation.

Next in order upon the chart is found the Inspection Department, which is a necessity in every factory where goods have to be made to specification, and the smaller the limits allowed by the specification and/or the greater the number of operations or processes through which the product has to pass in course of manufacture, the more stringent must be the check upon the accuracy of the work done. Where the operations or processes are numerous, or where few and expensive, it may be found economical to have the inspection check made by measurement, analysis, or other appropriate test after each operation or process, because it is obviously foolish to proceed with work upon an article which cannot be right when finished. No hard and fast rule can, however, be laid down as to the frequency of the inspection check, as only experience in each separate business can tell whether an additional test here or there will lead to a saving being effected. The methods to be employed in testing the accuracy of the products must, of course, be determined after consideration of the nature of the goods being manufactured and the methods used in their production, but the organisation of the department calls for some ability and even ingenuity on the part of its chief officer. In a factory of any considerable size it will be found necessary to split the Inspection Department into sections, and this will probably best be done by the creation of one section for each of the shops or departments whose production requires to be tested. In many businesses it is the practice to inform the foreman concerned, daily or weekly, of the quantity of the output of his men that has failed to pass the tests, and of the proportions thereof that have been definitely rejected and that have been put back for correction. If there are these two sentences that can be passed upon goods that are not up to standard, it will be appreciated that a close control upon the workers who actually pass the sentence is necessary, in order that goods may not be rejected that can be economically corrected, and that goods may not be sent for correction if it would be more economical to scrap them. As has been said, in many businesses the foremen receive advice of articles which do not pass inspection, but in how few factories is it the practice to have the sentenced goods laid out or otherwise made available for the personal inspection of the foremen. "Seeing is believing," and there is no doubt that, where followed out, such a practice enables a foreman the better to understand what his men are doing and the better to lay his finger on the weak spot, be it man, machine, tool, or material. Records, of course, must be kept of all goods tested and of the results of such tests, for from the statistics so obtained the management has its only information upon the quality of the work that is being done. Only by one class of result can an Inspection Department be judged, and that is the frequency or otherwise that complaints are received from customers. It cannot be judged by the quantity of articles it condemns, nor can it be said that because there are few cases of condemnation an Inspection Department is unnecessary. The moral effect that the inspection has upon the workers in the shops cannot be measured unless inspection be withdrawn, and such a step must only be taken after the most serious consideration. Quality in output is the finest advertisement any firm can have, and the good name of a business is ever in the hands of the Inspection Department.

In chronological order after the Inspection Department there comes the Sales Department, the functions of which are to sell the products of the business, and, after selling, to instruct the storekeeper to deliver or to advise

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the Planning and Progress Section of the goods that require to be made, so that the orders received may be filled. As set forth the functions sound simple, but there is as much need for proper organisation in this department as in any other part of the business. Efficiently sectioned it must be, but just what is the best method of sectioning the staff actually in charge of the selling must be left to the decision in each business of the man in control. It may be in the one business that the best results will be obtained by sectioning according to class of product, while in another the duties may be best divided territorially. In a third it may be found advantageous to section according to the channels through which orders are received, such as travellers, local agents, and post, and so on. Whichever method is decided upon, the duties of each section must be clearly defined, so that there may be no overlapping, no duplication of work. Nothing will impress a customer more than a systematic way of handling his order, and the system must be most carefully thought out to the last detail. Every little thing a firm does that saves a customer trouble is appreciated to the full, everything that is done in a better way than he has been accustomed to is sure to appeal to him. For instance, a traveller in booking a customer's order is in the habit of making it in duplicate, the original going to his head office and the copy being retained for the traveller's own future reference. Now, what is to prevent him making the order out in triplicate on specially prepared forms, the original and triplicate to be used as previously and the duplicate, with properly printed introductory wording acknowledging the order, to be given to the customer. It will save the customer the trouble of recording the order he has given, it will preclude all possibility of future dispute as to the order that was given—it saves the customer, it saves the firm, it pays. That is only one of the many ways in which a firm can please a customer, and as a satisfied customer is a continual source of profit, these little aids to satisfaction should be cultivated. Old-fashioned firms will reckon that it is not their function to assist their customers in any way and that the people who buy from them should feel honoured that they are allowed to do so, but the experience of all such firms to-day is identical, for they find they are not making the ground they expected. It may be safely said that a seller's real interest is his customer's interest, but the instillation of that fact into the whole of the selling staff requires systematic education—requires organisation.

There are at least two sections which will be common to all sales departments, and these are the Order Section and the Statistical Section, though in a moderately sized business the two may be combined.

All orders coming in, from whatever source, must be handled by the Order Section, where they are entered in a register and thereafter immediately passed to the credit rating clerk in the Accounts Department, who will note on each order whether in view of the customer's credit the order may be accepted or not. The orders are then passed back to the Order Section, where sufficient copies are made (by the aid of the typewriter and carbons) to permit of one copy being sent to each interested party. Briefly, these parties are, (1) the customer, who thereby gets a detailed acknowledgment; (2) the storekeeper or the head of the Planning Section, according as the goods have to be delivered ex stock or manufactured; (3 and 4) the storekeeper, to be passed by him with the goods to the despatch clerk; (5) the head of the Sales Statistical Section. As the order is filled the despatch clerk checks off the items on the No. 4 copy of the order, which reaches him via the storekeeper, and, when the goods are sent off, forwards that copy direct to the Order Department. The No. 3 copy is enclosed with the goods to facilitate the checking thereof by the customer. When the No. 4 copy of the order gets back to the Order Section it is the duty of that section to prepare the invoice to be sent to the customer. This will be done in triplicate, the original going to the customer, the duplicate to the Accounts Department for entry in the books, and the triplicate to the Statistical Section.

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The handling of orders has been gone into in some detail to give some idea of up-to-date procedure on a subject which receives too little attention in the average business.

The Statistical Section, as its name implies, is for gathering together in concrete form the statistics of the sales made. This information is of primary importance to the head of the Sales Department, and should be placed before him in such a form as will enable him most readily to grasp the progress of the sales side of the business. Just what information will be of most use to him will depend largely upon the class of business and the method of selling, but he should have in analysed or graph form (preferably the latter) the total of each day's sales of each of the various class of commodities handled; while other facts which readily lend themselves to tabulation and provide valuable information are the sales and expenses of each traveller, the consumption of each area in each class of goods, the value of orders received as the result of advertisement in the various newspapers and other periodicals, the quantities of goods in stock compared with weekly or monthly sales, and so on. In fact, this Statistical Section should be able to provide the sales manager at any moment with up-to-date information upon any one of his departments' various activities. It may be noticed finally that if this section is well organised, and if the analysis of the sales is properly done, it will obviate the necessity for such analysis being done in the Accounts Department.

Advertising is another of the functions of the Sales Department that calls for a section to itself, and in many businesses these days it would be a large section with subsections for newspaper, other periodicals, and poster work, each with its artistic assistants, and a general subsection for the work of arranging the various contracts.

The department next upon the list is the Accountant's Department, than which none is more important in the whole organisation. It is the keystone of the whole fabric, for without a proper accounting system an efficiently managed factory is impossible—organisation is out of the question. Only slowly is this fact being realised by the commercial community of this country, but more and more every day it is being brought home to the manufacturer that his chief accountant must be something more than merely a bookkeeper, that he is, indeed, at least as important to the success of the business as any other of the departmental heads. This being so, the need for the efficient organisation of this department is indeed clamant.

In the average factory it may be accepted that the department should be divided into six sections, these being:—

- (1) General Accounts,
- (2) Timekeeping,
- (3) Wages,
- (4) Stores Accounts,
- (5) Cost Accounts,
- (6) Internal Audit,

and each of these sections should be in the charge of a competent assistant who would relieve the chief accountant of all detail, leaving him free to deal only with matters of principle. It may be that in the early days of the organisation it will be necessary for the head of the department to handle detail work in educating his assistants to their functions, but a chief accountant who, when his department is organised, attends to detail work, is wasting the time of his employers and merits nothing better than the title of bookkeeper.

The functions of the Accounting Department as a whole may be said to consist of the checking and recording of the transactions of the business in money or money's worth. No member of the staff, as such, should handle money either in the receipt or payment thereof, nor should he be the

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originator of any of the essential documents connected with the finance of the business. The cash operations should be dealt with by the cashier, who is under the control of the secretary, and whose duties will be explained when the Secretarial Department is discussed; while the sales invoices will be prepared, as has been seen, by the Order Section of the Sales Department. The duties, therefore, of the general Accounts Section consist of the writing up from the purchase invoices of the Purchase Journal, from the sales invoices of the Sales Day Book, from the journal vouchers of the Journal, and the posting of the entries therein and in the Cash and Bill Books to the Creditors', Debtors', and General Ledgers. The credit rating clerk, already referred to, will be located in this section, and all customers' Ledger Accounts should be noted, with their limit of credit. The organisation of the general Accounts Section is comparatively simple, but it calls for attention nevertheless in the institution of the most up-to-date appliances in the way of loose-leaf ledgers, ledger posting machines, &c., and some degree of skill in the splitting up of the Creditors' and Debtors' Ledgers, so that no clerk may be overburdened while others have not sufficient to do to occupy their time. Even the arrangement of the staff in the office may affect the efficiency of the work, and the presence of the head of the section in the room beside the staff is essential to the proper conduct of its work. "When the cat is away the mice will play," and the office staff is afflicted with the same propensity to relaxation when the eye of their chief is not upon them.

The work of the Timekeeping Section is in charge of the chief timekeeper, whose staff will consist of the timekeepers at the various stations in the factory where the arrival and departure of the workers is recorded, and the duty of the section is to keep such records so that the work of the Wages Section in the compilation of the payroll will be facilitated. The organisation and supervision of the timekeeping arrangements is work of the first importance, as slipshod methods are a direct invitation to the less scrupulous of the workers to perpetrate a fraud. The arrangement of the timing station whereby it is impossible for one worker to time off or on for another as well as for himself requires careful consideration; and in this connection it will be found that up-to-date appliances in the shape of recording clocks will prove an economy in the long run. It is true that an efficient costing system, whereby the record of time worked in the shops is checked up with the time actually spent in the factory as recorded at the time office, will detect any fraud that is attempted, but a system of organisation should be such as will prevent fraud—such as will remove the temptation to commit a felony. An employer who through lack of foresight places temptation in the way of his workers is looking for trouble and must not complain if he finds it.

The duties of the Wages Section comprise the preparation of the payroll from the timekeepers' records, and the reconciliation of these records with the record of time worked which emanates from the productive and service departments of the factory. Further, this section is responsible for the analysis of the time worked under the various jobs performed by the workers. When the payroll is compiled it is passed to the cashier in order that the pay packets may be made up and handed to the workers; and when the allocation of the wages earned over the jobs and services is complete, it is passed to the Cost Accounts Section in order that the information thereby obtained may be incorporated in the Cost Books.

To the Stores Accounts Section falls the work of keeping the Stores Ledgers, in which are recorded under the various classes of materials, &c., in quantity and in value all receipts of goods into store and all issues thereof. If an efficient stores system is to be maintained, this section will require to work in close co-operation with the storekeeping section of the Production Department, from which it receives the advices of goods received and issued. It is a function of the stores accountant to analyse all issues of materials

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under the jobs, processes, or operations to which they have been issued, to price such analysis and pass it forward to the Cost Accounts Section.

In connection with the recording of stores received and issued, it is always a surprise to one of an accounting turn of mind to find that, however good the system may seem to be, discrepancies will always be found to arise when stock is taken. Why this should be will always remain a matter of conjecture, though it has been suggested that it is because no one engaged upon the handling of the material has been educated to the realisation of the fact that there really is no distinction between material and money.

The function of the cost accountant is to gather from the various sources in the Planning and Progress, Wages, Stores Accounts, and General Accounts Sections, information upon the output, wages earned, and materials used in respect of each job, process, operation, and service, and upon the overhead expenses of the business, and to record same in the Cost Books in such form that the cost of every product of the factory, and of every service rendered in or by the factory, is ascertainable.

In every section of the Accounts Department there is scope for the economical use of office machinery, and this is probably truer of the Cost Accounts Section than of any other. Adding and listing machines, calculating machines, tabulating machines, slide rules—all find their uses in this section with beneficial results upon the efficiency of the work.

The last section of the Accounting Department is the Internal Audit Section, whose functions comprise the checking of the accuracy of the detail work of the rest of the Accounts Department. One part of the work of the section may be touched upon briefly, as it is not yet so common as to be familiar to the majority even of factory accountants. The part referred to is the "stock audit," which obviates the necessity for a complete stocktaking at the closing dates of the periodical accounts. The method of procedure is for a member or members of the Internal Audit Section at frequent intervals (in a factory carrying a large variety of materials and stores it would be daily) to take stock of a number of the articles or classes of materials and to compare the results with the balances which the storekeeper's and stores accountant's records show ought to be in stock, and where differences arise to track same down and have the errors rectified. The work is so arranged that the whole stock of the factory is covered three or four times a year, and experience has proved that this continuous audit has such a good effect that discrepancies soon become almost unknown, and that the book figures for stocks may be safely adopted for the annual or semi-annual accounts.

Even this section of internal audit requires to have its organisation properly laid down. No member of the staff must be allowed to go as he pleases—they must all work to programme if there is to be the minimum of wasted time and effort and if all the necessary ground is to be covered. As regards the counting of the cash and the stock audit, however, the programmes for the future should be known only to the head of the section, for it will be appreciated that the tests might lose their value if it was known to the cashier when his cash in hand would be checked, or to the storekeeper when any item of stock would be taken.

Of the departments upon the chart there only remains the Secretarial Department, presided over by the secretary. This department may be divided into three sections: First, the Cashier's Section, which is responsible for the receipt, custody, and disbursement of all money (including the actual payment of the workers' wages) and the recording thereof in the Cash and Bill Books. Secondly, there is the Registrar's Section, responsible for all work connected with the issue and transfer of shares, payment of dividends, annual returns of shareholders, income-tax, &c. And, thirdly, there is a General Section, which attends to all the board work and which has the supervision of and responsibility for all general office staff which does not

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come specifically under any other department, such as telephone operators, commissionaires, messengers, cleaners, and so on. Where a factory runs its own canteens, mess rooms, or hostels the responsibility for the supervision of them should also rest with the secretary.

It is impossible in a short paper of this description to go fully into the details of the organisation of each department and of each section, as such details would fill several volumes, but the indications that have been given may serve to draw attention to some of the salient features of an efficient organisation for a manufacturing business.

Now, the adaptation of such an organisation to a business other than a manufacturing one can, by the aid of a little common sense, be easily accomplished. For instance, in a merchant's business the Production and Inspection Departments will be eliminated, but the storekeeping section of the former will be converted into a department of itself, for the duties performed by it will be one of the main functions of the business.

The most important thing to be remembered in the creation of an organisation is that the work of each section must dovetail into the work of all others. There must be no overlapping of function, no duplication of work—each must proceed upon lines that have been carefully thought out and clearly laid down, so that each human unit in the whole may definitely know what he has to do and how, where, and, above all, *why* he has to do it. There is, in an efficient organisation, a very good reason for everything, and the worker, whether he be in the office or in the factory, must appreciate the reason if he is to perform properly the duties that are assigned to him.

It has been explained broadly how every little detail in a business, whatever its nature, requires to be analysed to see if the work involved therein is being performed in the most efficient manner, and although as each department has been considered so the office work connected therewith has been touched upon, it may not be amiss if some of the conditions which apply generally to all offices are mentioned in greater detail.

The importance of the work done by the office staff is too little recognised in the average manufacturing concern, and this may be set down as due to the fact that at the fountain head one usually finds a man who has been trained on the works side of business. He has not himself been through the mill of office routine and has, therefore, little or no conception of the amount of work involved in keeping books and records up to date, in preparing statistical returns, or in supplying all the thousand and one pieces of information which are continually being asked for not only by the officials of the company itself but by debtors, creditors, and all the other agencies which affect or are affected by the activities of the business. Too often is the office staff looked upon as a necessary evil; too often is the initiative of the chief accountant or office manager killed by the treatment which his recommendations for improved facilities, greater accommodation, better conditions of work, and more up-to-date appliances, receive at the hands of the powers that be; too often does the chief accountant or office manager come to believe that he is the incubus that the works' side consider him to be; too often does he fall into the rut that was worn by his predecessor's footsteps. And yet success from the organisation of the rest of the undertaking is impossible if the work of the office staff is inefficient.

What then are the matters connected with the office work that affect its efficiency? First may be placed the matter of accommodation. Big business is to be found usually in the large centres of population where space is valuable, with the result that the office staff is often to be found cooped up in small, ill-lit, badly ventilated, noisy rooms, and under such conditions the marvel is that work is done even as well as it is. There is difficulty in deciding which of these conditions is the worst, but probably the overcrowding

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of staff may be considered to militate against good work more than any other, for with that condition present all the other evils mentioned will in 90 per cent. of cases be found also to prevail. It is not always possible to arrange so that every member of the staff in a room has an adequate amount of natural light, but there are some methods of artificial lighting which will not result in eye-strain, and these methods are too seldom adopted. A careful study of this too often neglected matter will well repay any trouble or expenditure involved. The ventilation of offices is seldom considered, or, if considered, shelved, because there are windows, and it is probably thought there is nothing to prevent any member of the staff opening them if he so desires. Such reasoning, however, is fallacious, for just as in a railway compartment in cold weather there are always some who want the window open and others who want it closed, so in almost every office one will find the lover of fresh air and the thin-blooded clerk who prefers a fetid atmosphere. Ventilation should not be left to the humour of the inhabitants of an office. A small exhaust fan is inexpensive and will pay for itself in the increased efficiency of the staff, which will result from the greater physical comfort. Noise in an office can be diminished in several ways. There are now on the market noiseless typewriters, but the clatter of a typewriting machine is not half so disturbing as the bellowing one often hears when people talk on the telephone. Employees should be taught how to speak on the 'phone, for not 10 per cent. of 'phone users have yet learned to speak close to the transmitter in a quiet voice. The temperature of an office should be systematically controlled in cold weather, for if an office is too warm the staff becomes lethargic, while if it is too cold their attention is bound to wander from their work to their hands and feet. Central heating is, of course, the most efficient for warming the whole atmosphere of a room, but it is not sufficient to instal such a system and leave it to run itself. It should be someone's duty to attend to the regulation of the temperature in, and ventilation of, each room.

The advantages of central filing as against decentralised filing and *vice versa* have been argued at length, and it is not proposed to add to the controversy now. Some businesses lend themselves to one, some to the other—either can be made efficient, and one *must* be made efficient if the whole office organisation is not to suffer.

It has already been explained, when considering the lay-out of a factory, that the ideal to be aimed at in the arrangement of work in each shop is to have a straight flow. Well, the lay-out of the offices should receive just as careful attention in that respect. Sections between which there is much coming and going should be located in adjacent rooms as far as possible, for by this means much energy and time may be saved (and both mean money).

Another matter for attention is the matter of office supplies. Every office carries a stock of stationery, pencils, &c., but the supply of them to each member of the staff is usually done most inefficiently. Each clerk is bound to require certain things regularly, but each time he wants to renew his own little stock he has to waste time on it. How much better it would be for a definite stock to be arranged for each one and for an office boy to go round every desk once or twice a week to see that the stocks are kept up. And the boy should be instructed to place the new supply of stationery at the bottom of these stocks. Of course, there are always certain unusual supplies which are required from time to time, and then it would be necessary for the clerk requiring them to get or send for them specially, but much time can be saved by systematically arranging for the ordinary supplies.

These are only a few of the matters connected with an office that will pay for attention—there are so many that it is impossible to deal with them all now; but a little thought on the part of anyone in charge of a staff will bring into view a multitude of details on which savings can be effected and greater efficiency obtained.

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The extent to which office machinery can be economically employed is only one of these details, but it is one that is worthy of very careful consideration. It is also one which is receiving more and more attention every day, but it is not every user that gets the best from the machines he employs. Too often does one find that the machine is expected to work wonders of itself, whereas, more especially in connection with payroll machines, ledger posting and other bookkeeping machines, and tabulating machines, they must have definite and well thought out systems devised for them. Before blaming the machine for lack of results one should be sure that the system behind it is not at fault. Again, inexpensive machines, such as those that affix, count, and cancel insurance stamps, may be economically employed if used one day per week, but the most expensive machines cannot be said to be economical if they work less hours than the average clerk.

“Organisation” means the creation of methods whereby things may be done systematically, but all attempts at organisation will prove futile unless everyone in the business co-operates to make the business a success. In an organised business every section has some relation to one or more other sections, and if it fails to perform its own functions it is liable to derange the functions of those others as well. The organiser requires all the co-operation he can get, and he can get most by being tactful. A staff cannot be driven into efficiency, for the basis of efficiency is willing service, but it can be led. A great deal of spade work is required of the organiser in the way of educating the staff and the workers to see the benefit of system—he will meet with rebuffs, he will meet with failures, but the end to be gained is worth suffering much to obtain, for organisation leads to method, method begets system, system produces efficiency, and efficiency commands success.

Books of the Month.

GRANTS IN AID. A Criticism and a Proposal. By SIDNEY WEBB. $8\frac{1}{2} \times 5\frac{1}{2}$, viii + 145 pp. 7s. 6d. n. Post free 8s. [Questions of administrative finance are of special interest at the present time, and the new and revised edition of Mr. Webb's book is very opportune. The necessity for reform in Local Government methods is admitted, and this book criticises the present system, and makes constructive proposals for improvements.]

THE SECRETARY AND HIS DIRECTORS. By HERBERT W. JORDAN and STANLEY BORRIE. $8\frac{1}{2} \times 5\frac{1}{2}$, xii + 147 pp. Fifth edition. 2s. 6d. n. Post free 3s.

REMINDERS FOR COMPANY SECRETARIES. By HERBERT W. JORDAN. $8\frac{1}{2} \times 5\frac{1}{2}$, vi + 35 pp. (Paper cover.) 9d. n. Post free 1s. [Mr. Jordan's handbooks on Company Practice are too well-known to need recommendation. The proof of their usefulness is shown by the fact that the two mentioned above have reached their fifth and sixth editions respectively.]

THE MONEY MARKET: Some Present Day Influences. By J. H. McCALL, F.S.A.A. $8\frac{1}{2} \times 5\frac{1}{2}$, 16 pp. 1s. n. Post free 1s. 1d. [This pamphlet, which is a reprint of articles that have appeared in this paper, is written with the object of enlightening students of accounts as to the present-day influences at work in the market.]

LOGARITHMS. Their Application to Arithmetical and Business Calculations. By G. E. LAUNDER. $8\frac{1}{2} \times 5\frac{1}{2}$, 2s. n. Post free 2s. 4d. [This is a clear explanation of the use and application of Logarithms. There are exercises with answers, and various methods of calculations are explained.]

Published Balance Sheets and Accounts.*

By Lawrence R. Dicksee, M.Com., F.C.A.

(Sir Ernest Cassel Professor of Accountancy and Business Methods in the University of London).

It is often extremely difficult to estimate the true financial position of an undertaking from its published Balance Sheet and accounts. Professor Dicksee, the well-known author and lecturer, makes some suggestions as to the arrangement and form of a Balance Sheet which will be easily intelligible and at the same time convey all the necessary information to the general public.

I have chosen as the subject of my lecture to you this evening, "Published Balance Sheets and Accounts," partly on account of its importance and partly because it is not a highly technical subject and is, therefore, not unsuitable for consideration at the beginning of a session, but chiefly because of the widely divergent views as to what a published Balance Sheet ought to be. We may, therefore, I think, very usefully consider the question in its various aspects, and also consider how far the criticisms which are sometimes passed upon published Balance Sheets and accounts are reasonable, and how far they are unreasonable as being really impracticable. We find that it is said upon the one hand—and this, perhaps, of the two is the view more widely held—that a Balance Sheet should be a statement showing exactly the financial position of an undertaking, containing facts and nothing but facts, showing exactly how that undertaking would pan out if the business were to be discontinued and the affairs of the business wound up. At the other extreme we find it suggested that a Balance Sheet means practically none of these things, and that it is simply a statement prepared by the bookkeeper when he has finished his work at the end of a year, or some other period, and then simply puts together in the form of an annual statement a sort of list of the uncompleted transactions.

If we take the first view as being our standard of what a Balance Sheet ought to be, it might be regarded more or less as a statement of fact, although even then there might be widely divergent views as to what certain kinds of property would realise if sold, before any attempts had been made to find a purchaser for them. If we take the second view, it is possible to regard the Balance Sheet as a statement of fact, again up to a point; but of a different kind of fact. We must then regard it rather as a statement showing on the one hand what the undertaking has received and has not repaid, and is, therefore, liable to account for; and on the other hand a statement of what it has done with the moneys so received and not yet refunded. There again, to some extent, matters of opinion must crop up, and our Balance Sheet even on that basis cannot be regarded as a cold statement of absolute facts. Whichever way we look at it, we must

* A public lecture delivered at the London School of Economics and Political Science on 7th October, Mr. Wilson Potter, Vice-Chairman of the Shipping Sub-Committee for Commerce Degrees of London University, in the chair.

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expect to find questions of opinion, so to speak, mixed up with our statements of fact, and the opinion must in the first instance clearly be the opinion of those who are rendering this statement of fact—the accounting parties.

When the Balance Sheet is audited, it becomes the duty of the auditor not to “certify” that the Balance Sheet is a true statement of fact, because that, as I have just said, would be impossible as regards at least a part of it; but he is called upon to express an opinion as to whether the statement as put before him by the accounting parties properly discloses the position of affairs. If his opinion differs from theirs, it is his duty to report in what respect it differs; but it is important to bear in mind that the auditor’s report is to a very large extent a matter of opinion and that the expression “auditor’s certificate,” which is so very commonly used, is a misnomer. One can certify facts, but one cannot certify matters of opinion, and as a matter of fact the law does not require a Balance Sheet to be certified, but it does require the auditor to report whether in his opinion it is properly drawn up.

Supposing we were to take as our standard of what the ideal Balance Sheet ought to be the view that it ought to show what the position will be if the business is disposed of and its affairs are wound up, then clearly, if its possessions are at the time when we prepared the Balance Sheet likely to be sold at something appreciably above their cost price, we are looking forward to a profit on realisation. We are expecting that the position will turn out better on a realisation than it would have done had there been no rise in prices. If we frame our Balance Sheet upon those lines, it must necessarily result in its showing a profit up to date which includes a profit that has not yet been realised, and is, therefore, not at present available to be divided in money. In so far as that profit may be expected from the sale of what we may call the general equipment of the undertaking—what is technically spoken of as the “fixed assets” of the undertaking, the things that it does not try to turn into money in the ordinary course of business, but has acquired with the object of using them in their existing form as a means of increasing the profits of the undertaking—in so far as we include possible profits on the realisation of equipment, we shall be including as profits actually already made profits which there is no intention whatever of ever making on the assumption that the business is not being disposed of or shut down, but is to be continued.

Accordingly, when, as at a time like the present, the tendency is for prices to rise and to go on rising, a Balance Sheet so prepared would show very large profits which would be largely, if not entirely, illusory. At other times it might be that, with falling prices, Balance Sheets so prepared would show serious losses; that is to say, the existing equipment might perhaps only be saleable at a price very considerably less than what it originally cost, even after making due allowance for the fact that it is partly worn out and, therefore, that we should not regard it as being to-day worth the original cost. Its realisable price might be less still. If we were to be debarred from dividing profits derived from the practical working of our business merely because equipment could be bought more cheaply to-day than when we purchased our equipment, this would certainly not make it easy for us to find new capital for expansion; it would not make it easy for other similar undertakings to find new capital for new enterprises. But, apart from that, these losses which a Balance Sheet so framed would show would be just as illusory as the profits would have been after a period of rising prices; that is to say, they would be hypothetical losses which would be sustained if we were to dispose to-day of something which we have no intention whatever of trying to sell. In our attempt, therefore, to produce

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a Balance Sheet which will get into close touch with actual facts, we find that we have entirely defeated our purpose and have got right away from the true facts of the position, the essential fact being that the business is a going concern which we are going to continue to carry on so far as we can anticipate, and which we have every reason to suppose that we shall be able to continue.

Then there is another point. If we frame our Balance Sheet so that it may show as profit increases of wealth which, even if turned into money, are manifestly of a non-recurring nature (and a profit derived from the sale of one's equipment clearly could only be made once, and not annually), the effect would be to encourage by this form of accounting the payment of very large dividends after a period of rising prices and no dividends at all after a period of falling prices. We should find that not even the soundest undertaking could maintain anything like a uniform rate of distribution among its proprietors by way of dividend, and that again would make it very difficult for us to get capital for new enterprises.

Then, again, if we keep to this first ideal of a Balance Sheet which represents absolutely realisable value, we have got to cut out altogether a number of items which, if we adopted the second ideal, we should certainly include in our Balance Sheet along with our possessions, or "assets" as they are commonly called. In almost every kind of business activity certain kinds of expenditure occur, the full benefit of which is not received entirely within the year (or other accounting period) in which the expenditure takes place, so that at the date of the Balance Sheet the whole of the advantage to be derived from that expenditure is not exhausted; there is still a surviving value in that expenditure which, with varying degrees of confidence, according to circumstances, we expect will be received in future years—sometimes a few years, sometimes many years. Now, clearly, expenditure the benefit of which is entirely exhausted within one week, is a proper charge against the profits of one week. Expenditure which is entirely exhausted within one year is similarly a proper charge against the profits of that year. Expenditure which is not entirely exhausted, until, let us say, the end of 20 years, is equally properly chargeable over the longer period of 20 years. Theoretically at least, we ought to ascertain what benefits will be received from this outlay in each accounting period during which it is any advantage to us whatsoever, and charge the corresponding portion of the cost against each accounting period. That is what is commonly done in practice with such items as plant and machinery and the like, which we know will last very much longer than one year, and the cost of which is spread over a longer period—a period approximately as nearly as one can tell, and as nearly as experience will help one to determine, to the time during which that plant and machinery continues to be useful as equipment, and, therefore, to serve its function as a profit-earner. It we accept that as a reasonable way of dealing with expenditure of this character, it necessarily follows that in each successive Balance Sheet prepared during the time that the effective life of that equipment continues, we must bring in such part of the original cost of the equipment as we consider is not already worked out or worn out—that part which we consider survives and for that reason is more properly chargeable against future profits than against current profits. If we work upon these lines, it necessarily follows that from time to time such outlays will appear in our Balance Sheets at figures quite different from the then realisable values of the articles represented by the outlay.

We cannot possibly frame a Balance Sheet which will carry out both ideals; we must choose which of the two is the one that we propose to adopt. In every case where we are proposing to continue the business and there is no

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reason to suppose that we shall not do so, and no reason, humanly speaking, to suppose that the future profits of that business will not be able to bear the burden that we are throwing upon them, that seems to be a perfectly sound method, and it has at least the advantage of charging against the gross earnings of each year their fair share of the burden that has to be borne by all of the years. The system, therefore, tends in the direction of producing statements of profit from year to year that will be as uniform as the varying circumstances of the case would permit or justify. At least, we are not going out of our way to make the profits fluctuate more widely than the conditions of trade necessitate.

Shareholders, in the nature of things, for the most part prefer uniform dividends. They are quite willing that distributions out of profits should tend to increase, but they are always inclined to be disappointed, and frequently inclined to grumble, when the rate of dividend falls. Accordingly, those who are responsible for the preparation of accounts, and for the successful conduct of a business, very naturally adopt in the main a procedure that tends in the direction of avoiding large distributions of profits which they know it will be impossible to maintain in the future. But although shareholders as a body like uniform dividends, as representing fixed income, they are not always very consistent, and, accordingly, we commonly find that where the dividend that it is proposed to declare is markedly less than the amount of the undivided profits available to be divided, pressure is brought to bear by the shareholders for the dividend to be increased, and directors as a rule endeavour to resist that pressure where in their opinion the standard of distribution proposed is too high to be maintained. To assist them in resisting that pressure, it is a very common thing to transfer a certain (or rather an uncertain) part of the profits actually earned to a reserve, thus reducing the amount of undivided profits shown. The device, although exceedingly thin to the initiated, seems to serve its purpose quite well in practice. We rarely find shareholders clamouring for a dividend to be paid out of reserve, although at times, when the reserve gets very high, they may look forward to, and expect, a free distribution of shares out of reserved profits; but the practice of transferring what we may call "surplus profits" to reserve is generally effective, as permitting current dividends to be kept within the safety limit. Nevertheless we do not always find that this particular method is employed by directors to keep dividends within what they consider to be desirable limits. Instead of transferring profits to a reserve that is clearly shown upon the face of the Balance Sheet as something which has to be accounted for in the future—or what is called a liability—the practice has grown up, and during recent years appears to be decidedly upon the increase, of piling up what are sometimes called "internal reserves," sometimes "undisclosed reserves," and sometimes "secret reserves." The term "secret reserve" does not seem to be much used save by those who oppose this particular kind of policy and regard it as being highly undesirable.

The effect of the policy is to withhold from those to whom the Balance Sheet may be sent the fact that the undertaking has made certain profits which have not yet been divided. The directors do not "account" to the extent of such reserves. On the face of it that might seem to be entirely improper and highly unjustifiable, but it has been held that there is nothing whatever illegal about such a practice so long as it is not contrary to the regulations of that particular company. Most companies in their regulations take power for their directors to make such reserves as they think fit, without specifying whether those reserves are to be shown upon the face of the Balance Sheet or not. The only thing that the Courts have so far objected to in the matter is that they have decided that the existence and the extent of these reserves must not be concealed from the company's auditor. They throw upon the

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latter the grave responsibility of determination whether he shall make any disclosure to the shareholders with regard to the matter. This seems very clearly to suggest that the auditor will not do so without good reason, so that as long as the directors are acting in good faith these internal reserves are apparently recognised as being a reasonable business policy.

Such reserves may be made in a great number of ways, all of which will indirectly affect the published Balance Sheet. Excessive sums may be charged against current profits to provide for contingencies, such as the wear and tear and obsolescence of equipment, possible future bad and doubtful debts, the deterioration in value of stock in trade or investments, and so on. Almost everybody applauds the systematic and drastic writing down of goodwill in the case of a successful company. The policy is, no doubt, excellent in itself, but we have got to remember that the more successful the undertaking may be the more valuable does its goodwill become. Although, therefore, we may write goodwill off against profits, and out of the Balance Sheet as rapidly as the earning capacity of the undertaking will permit, we are deliberately preparing a Balance Sheet which under-estimates the value of that particular asset. The policy may be justified on the ground that even in the most successful business the value of goodwill is subject to wide fluctuations, because even in the most successful business profits fluctuate; but, however that may be, the effect of writing down goodwill is to state this particular asset in our Balance Sheet at less than we believe it to be worth, and to leave a corresponding amount of money (if the profits are realised profits) in the control of the directors for future purposes.

We may also build up internal reserves by overstating the total amount of our liabilities, by including reserves for possible future claims or in excess of what we really believe to be the actual extent of our commitments at the present time. Again, various kinds of outlay, which result in acquiring new possessions, whether by way of buildings or plant or investments, or what not, may be and sometimes are charged direct against profits as a working expense, with the result that that which has been acquired as a result of this outlay does not come into the Balance Sheet as an existing asset at all. The result of this kind of policy is that it leaves us without any formal record in our accounts of the property that we have purchased, the existence of which ought to be carefully verified from time to time.

The strongest argument in favour of reserves, whether disclosed or undisclosed, is the impossibility of saying with absolute certainty what the future has in store for us. We are only justified in putting into our Balance Sheet as assets that which we think we shall in the future receive real value for, either when it is disposed of and turned into money, or as the result of using it in its existing form. We can never say with absolute certainty what future benefits we shall derive from our present possessions. We must, therefore, leave a wide discretion in the hands of those responsible for the management of the business as to the value that they put upon these items as being fair and reasonable. Similarly, although not as a rule to such a great extent, it is not practicable in the case of a going concern to say with absolute certainty what claims may be made upon it in the future arising out of events that have already happened. We must permit the management, therefore, to provide an adequate and even a generous amount for future contingencies which, in their judgment, not only are likely to happen but also may happen. We cannot, and ought not to, complain, but rather to congratulate them if their general policy is always to be upon the safe side, and to aim at disclosing a position in their published Balance Sheets that is certainly not better than the true position.

We see then that we must give the accounting parties a very wide discretion as to how they frame their accounts, and that in the nature of things

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they cannot put before us a statement of facts in connection with things that have not yet happened, and that things which may happen in the future will react upon what is, or is thought to be, the present position, in so far as they have not been provided for or have been over-provided for. In spite of all this we must draw the line somewhere, or we shall find that we are driven to the conclusion that the Balance Sheet may mean little or nothing, and would, therefore, be useless.

It is only shareholders who have a statutory right to see a Balance Sheet. On the other hand, most companies go much further than that and issue copies of their Balance Sheets to practically anybody who likes to ask for one, and some even go to the extent of advertising their Balance Sheets so as to make them as far as possible common knowledge. There must clearly be some responsibility resting on those who publish Balance Sheets for the information they contain, even although you may not find their responsibility defined in the Companies' Acts. We find it mentioned, however, in a rather forceful way in the Larceny Act, where it is provided that it is a misdemeanour to publish a Balance Sheet with intent to deceive a member or a creditor, or with intent to induce anyone in the future to become a member or a creditor, so that the Balance Sheet is not a purely domestic document.

In ordinary practice Balance Sheets seem to be used, and to a surprising extent to be relied upon, not merely as a means by which the rank and file of the shareholders may test the degree of success with which a board of directors has conducted the affairs of the undertaking, but also as a means of enabling the initiated to determine what is the true value of the company's shares from time to time. It is very doubtful whether a Balance Sheet can be of much use for this latter purpose. The true value of the shares in a company depends, no doubt, to a certain extent upon what return would be likely to be made to shareholders in the event of the company being wound up, but it depends certainly to a greater extent upon the income derived from the possession of the shares and the degree of probability of that income being maintained. The Balance Sheet as ordinarily prepared gives very little idea as to what shareholders may expect to receive if the company were wound up. It will give some idea as to the probability of the business being successful in the future, and it should enable us to determine whether the resources of the undertaking are sufficient to enable it to meet its debts as they fall due. We may, by looking at a Balance Sheet which has been prepared with reasonable honesty, satisfy ourselves that it is not likely that the company will be obliged to discontinue operations because it is unable to pay its debts, or we may form the conclusion from looking at the Balance Sheet that there is a greater or a less probability that it will be obliged to stop for want of money; but we can form no very useful idea from looking at any Balance Sheet as to whether the profits of the next few years will be as great as those of the last few years. You must remember that perfectly sound undertakings sometimes carry on for a year, or even more, with very little profit, or perhaps even at a loss. The existence of sufficient reserves will, however, enable them to tide over lean years, and still to go on paying dividends. That we may form a useful idea of the position of an undertaking from its Balance Sheet is all that we are able to say.

The Balance Sheet should show in reasonable detail the grouping of its assets. Most Balance Sheets do that. Some certainly do not; and as an illustration of one that does not, I should like to read you an extract from a Balance Sheet of a well-known company. Explaining an outlay of upwards of 5½ millions sterling, it does it in five lines of print, as follows:—"By land, water rights, reservoirs, effluent works, buildings, plant, machinery, office furniture, goodwill, designs, engraving, and sampling, as per last

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"account, £5,776,212 19s. 8d. Further capital expenditure at cost (less "sales) for the two years ended 26th June 1920, £14,922 16s. 11d.," making a total of £5,791,135 16s. 7d. I suggest that that is not an ideal way of disclosing to interested parties what the main resources of the undertaking consist of. Another example of how not to do it I should like to give you: The Balance Sheet of a shipping company having total assets amounting to £1,305,000 odd, explains £1,073,811 of that amount by simply describing it as "Stock in steamships and investments, book value at 31st December 1918, after deducting depreciation previously written off." At the annual meeting of that company the chairman was asked whether he would state how much of that figure represented steamships and how much represented investments, and he said that it was not in the interests of the company to give that information. At that time the £10 shares of the company stood at about £45. A little later the ships were sold and the company was wound up, and the return to the shareholders is now expected to be about £130 per share. One wonders whether it really was in the interests of the company that shareholders should have no information which would suggest to them that their shares were worth a very great deal more than the current market price.

I put these matters before you, but I have no time this evening, and I do not think that I have any particular inclination just now, to suggest a remedy. I have merely tried to point out to you that the question of what a Balance Sheet ought to be, and ought to contain, is not a very simple one that can be answered offhand, and yet that it is a very urgent one, in that clearly there are cases where shareholders and other interested parties do not get the information that would be of great use to them from the published accounts, and seem at present to be entirely without a remedy.

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The Grammar of Law.—I.

! By Donald Mackay, B.L. !

The following article is the first of a series on the Elementary Principles of Law specially written for the "Accountants' Journal." Mr. Mackay will deal with the basic principles of law in general, and students will find in this series a useful and practical introduction to more advanced studies of the law.

1.—Origin and Functions of Law.

Law may be practically defined as the rules by which the order of society is maintained. It prescribes what is to be done and what is to be abstained from. One can scarcely conceive of any society, even the most primitive, which has not something in the nature of regulations for its conduct. These may arise out of instincts, necessities, even passions, but they have for their aim and object the subordination more or less of the individual will to the common social purpose. There is rule and constraint. In course of time these are consolidated into customs or uniform practices which are recognised as binding, and when that stage is reached we are in the domain of law, for, generally speaking, custom is the parent of the common law. This is effected by the social practices and customs being recognised, applied and interpreted by the judiciary of the community, however primitive it may be. In modern times courts of justice are specialised institutions, but law can exist, and has, in fact, existed, apart from trained judges or professional practitioners.

As society progresses, and higher standards of ethical and social conduct are reached and new circumstances emerge, common law is seen to be capable of improvement. These improvements are effected by the statutes or orders of the ruler or governing body of the community. By these, the common law is altered, and new laws are introduced to meet new conditions. There are, thus, two main elements in the formation of laws. One which may be called the historic or customary element, and the other the deliberative or statutory method. Sometimes both methods are united by the process of codification, which aims at the reduction of separate and conflicting laws, both common and statutory, into one

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uniform system. A third important source of law is judicial interpretation. Inevitably, differences of opinion arise respecting laws. Conflicts of right occur which are settled by established courts. The judges of these, in giving the decisions, interpret existing law, but these interpretations not infrequently result in new law in the sense that an extended meaning may be given by them to existing laws. To this we shall refer later.

As society develops well-defined departments of law are marked out. Each of these has many subordinate departments, but it is here sufficient to notice the main divisions. *First*: Laws for regulating the internal condition of the body politic, relating to, e.g. the relations of family life, ownership of property, enforcement of agreements, preservation of individual liberty and safety. *Second*: Laws regulating the relation of the society or State in its dealings with other States. This is known as international law. Here, however, it should be noted that what is termed international law lacks, as yet, an element essential to effective law, namely, sanction. In this respect its rules are imperfect, there being no sovereign power to give them recognition and enforcement. *Third*: The rules regulating the relationship between the citizens of one State in their individual capacities, and the citizens of other States similarly. This is private international law. *Fourth*: With the growth of society it is found practically necessary for the governing body to delegate the power of making laws to subordinate bodies. Thus, it may entrust the making of local regulations to an authority elected in the locality, or commit to a specially created statutory body the duty of making regulations for certain defined purposes. This is administrative law. *Lastly*, the enactments of these subordinate legislatures, or even of the supreme governing body itself, may not be absolute. In the case of the former, they can only exercise their powers within the limits appointed for them, and even, as in the case of the United States, where the constitution of the legislature is written, the point may competently be raised whether enactments of the supreme governing body are in conformity with its own constitution. The question as to the competency of any step which the governing body may take, and the effect which it may have on that body, brings us into the region of what is termed constitutional law.

In defining next the province of law, we are at once forced to consider the far-reaching distinction between law and morality. The essential distinction between the two laws is their respective sanctions, i.e. the manner in which they are enforced. Law derives its sanction or compelling power from some external force which it can call to its aid. A man who appeals to the law, and appeals successfully, has the whole reserves of the State at his back, when he proceeds to make good his claim—for example, if one of the parties to a contract breaks it, and the Court awards the other party damages, the law puts at the disposal of the latter its magistrates and officers to enable him to recover his money; or the sanction may operate by way of punishment, e.g. a person who has broken the law by stealing will be punished. Further, the sanction may consist in the fact that unless certain rules are observed, an intended result cannot be achieved, e.g. if the law requires writing as evidence of a certain obligation, it refuses to enforce the claim of a creditor who has not his claim so evidenced. Sanctions are the appointed consequences of disobedience. In regard to morality, however, there is no physical sanc-

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tion, the compelling force is inward, and comes from a man's own conscience or sense of honour. In other words, law is an enforceable rule; ethical rules are voluntary. Again, law is external; it can only deal with words, acts, things; it does not extend to that which lies in the thought of the individual.

On the other hand, law may go further than morality in its demands. A familiar instance of this is that a master is legally liable for the acts of his servant, though he personally might even have forbidden such acts. That is a principle of general public policy and expediency, which entails legal consequences on persons who themselves may not be associated with fault at all.

A further important distinction is that the moral law being applied by each individual to his own case is adaptable to particular circumstances. The individual himself is his own judge of the circumstances, both objective and subjective, and he can act according as his moral nature dictates. With law, on the other hand, only a general rule can be laid down which appears to the legislature to do least hardship to individuals, while at the same time obtaining the object in view. It is the province of the judge to apply this general rule to particular cases.

Sometimes the general rule works hardship to individuals, and to correct this several devices have been employed. One of these is equity. The purpose of this is to enable a judge, in any case in which the generality of a rule seems to press severely upon a particular person, to introduce, at his discretion, such modifications of the rule as may carry out the presumed general design of the law-maker with the smallest amount of deflection from the rigid language in which the law is couched, and yet with a more considerate regard for all the circumstances which surround the actual case than that language was capable of anticipating. It is necessary that such a power of adaptation should exist, even though it may sometimes result in decisions that seem at variance with formally recognised law, but yet are intrinsically just. Equity in English law is derived from the King's ancient power of doing justice at his discretion, and by special means in cases where the ordinary means of justice failed.

Another method whereby the severity of the general rule is tempered is by committing the discretionary power to the judge. This is best illustrated by criminal law. The law lays down a certain penalty for an offence which might be committed either by a person deliberately, and even in defiance of the law, or by a person in extenuating circumstances or in ignorance of the law. Such cases are met by the statute enacting a maximum penalty, and allowing the judge to modify it to suit the various degrees of guilt.

The Fundamentals of Accountancy.—X.

By Lawrence R. Dicksee, M.Com., F.C.A.

(Sir Ernest Cassel Professor of Accountancy and Business Methods in the University of London).

The Preparation of Profit and Loss Accounts, Appropriation Accounts, and Balance Sheets are fully dealt with in the following article.

XLII.—Stock Accounts.

From what has already been stated, it will be seen that it is not customary for traders to attempt to keep any detailed day-to-day records of the movements of the goods in which they trade. The omission naturally has its drawbacks, and means that to a corresponding extent the responsible managers lose grip of the situation; but commonly they are content, if at the end of the trading period the rate of gross profit shown by the Trading Account is equal to expectation. Where, however, the goods are more than usually valuable (and especially if they are readily portable, as in the case of jewellery, &c.) detailed Stock Accounts are kept. The consideration of such accounts, however, is beyond the scope of the present work.

Similarly, manufacturers require to keep detailed accounts of movements inwards and outwards of the various raw materials they use in connection with manufacture. These detailed Stock Accounts (or Stores Accounts), where kept, form, however, as a rule, no part of the regular system of double-entry bookkeeping.

XLIII.—Profit and Loss Accounts.

It has already been stated that formerly the practice used to be to treat the Profit and Loss Account as a running account between the proprietors and the business in respect of working results, the account being credited with all profits, or earnings, and debited with all working expenses, or losses, with the result that it showed from time to time a balance due to or by the proprietors in respect of profit or loss, as the case might be, according to whether the account showed a credit or a debit balance. The modern practice is to introduce temporary sub-accounts (commonly called Nominal Accounts) for the purpose of analysing the items comprised in a Profit and Loss Account, and arriving at periodical totals at convenient intervals.

It follows therefore that, theoretically at least, the Profit and Loss Account is constructed by transferring thereto all balances to be found on any of these nominal accounts, as shown by the Trial Balance. In practice, however, this is only strictly true provided the Trial Balance has been constructed after making a full record of all the "continuous," or "imperceptible," transactions referred to in Paragraph X. If the Trial Balance has been extracted (as is usual) before the Trading Account has been completed, and if in that event the items in the Trading

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Account, save its resultant balance of stock in hand at the close of the period, be regarded as being the prelude of the Profit and Loss Account, every item appearing in the Trial Balance must ultimately find its way either to the Profit and Loss Account or to the Balance Sheet. We may first select the items proper to the Profit and Loss Account, carefully excluding all Ledger balances that more properly relate to the Balance Sheet, and having done so we may verify the result thus arrived at by carefully scrutinising the remaining items and satisfying ourselves that they are all proper items to include in the Balance Sheet, and that none of them are properly Profit and Loss Account items.

XLIV.—Appropriation Accounts.

The profit or loss arising from the working of a business over a given period having been ascertained by means of the Profit and Loss Account, it remains for the Accountant to show how matters are settled as between the business and its proprietors.

In the case of a partnership, the moment the profit or loss has been ascertained it is known how it ought to be divided between the partners, for unless there is express agreement to the contrary, it is always divisible equally; and in the absence of such an agreement, partners are entitled to draw out their respective shares of profits in cash, and per contra are liable to repay into the business their respective shares of losses. The function of an Appropriation Account in the case of a partnership is merely to show this distribution of profits or losses, as the case may be. The balance of the Profit and Loss Account is transferred to the Appropriation Account, and upon the opposite side thereof is shown the distribution of this balance among the partners, and its consequent transfer to the accounts opened with each of them individually in respect of profits and losses, which latter have probably been debited from time to time with sums drawn out by them in anticipation of profits. When the adjustment is concluded, the Appropriation Account shows no balance. The Journal is, of course, used as the posting medium. If the individual account of a partner shows a debit balance, that is a debt immediately payable by him to the business, or, per contra, if it shows a credit balance it is a debt due to him by the business. In practice the Appropriation Account is often omitted altogether in the case of partnership, and the transfers made direct from the Profit and Loss Account to the individual accounts of the partners.

In the case of a company, it is not the practice to divide the whole of the profits as shown by the Profit and Loss Account among the proprietors (or shareholders), hence in practice there will always be a balance of undivided profits, save in cases where there has been a loss. The function of the Appropriation Account in the case of companies is to enable the Profit and Loss Account to be cleared up at the end of each accounting period, ready to start the new period with a "clean slate," and to show how the past balances of the Profit and Loss Account have in fact been dealt with. Assuming the Profit and Loss Account shows a profit, this profit is transferred to the credit of Appropriation Account. Any allocations of profits for the purpose of paying dividends or bonuses, or making transfers to Reserve, &c., are debited to the Appropriation Account in total, and credited to suitably headed accounts (e.g. Dividend Account, &c.), where they appear as actual liabilities of the business until

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discharged by payment, when the account is debited as a result of postings from the Cash Book. Transfers to Reserve, &c., involve no immediate cash payment, and are accordingly recorded by means of Journal entries to the debit of Appropriation Account, and to the credit of an account called Reserve Account, or Reserve Fund. Possibly investments to a corresponding extent are purchased upon the Stock Exchange; but, if so, that is an altogether separate transaction, and will be recorded in the ordinary way. If the Appropriation Account has thus been debited with all allocations of profits, it will naturally show a credit balance representing the unallocated or undivided profits to be carried forward to the next accounting period. The Appropriation Account will be balanced off at this stage accordingly, and the balance brought down upon the credit side. If an Appropriation Account ever shows a debit balance, it must be because any prior credit balance has been wiped out as the result of the subsequent transfer of a debit balance (loss) from the Profit and Loss Account, or because allocations of profits by way of dividends, &c., exceed the amount available for that purpose. No dividend ought ever to be paid by a company unless there is a corresponding balance to the credit of Appropriation Account available for dividends.

XLV.—Balance Sheets.

A Balance Sheet is capable of being and is in practice often regarded from various points of view. It is a summary of those outstanding balances remaining in the Ledger after the accounts have been closed by successively completing the Trading Account (or Accounts), the Profit and Loss Account, and the Appropriation Account (if any). It may show each such Ledger balance as a separate item, but more commonly they are summarised so that the general position thus disclosed may appear in a condensed form, thus enabling the position to be taken in practically at a glance. Under modern accounting systems, the Balance Sheet is not itself a Ledger Account, i.e. it is not built up as a result of actual postings from first-entry records, but is merely a summarised list of Ledger balances prepared in a convenient form, and commonly (but not invariably) written into the Ledger, so that it may be placed permanently upon record. Sometimes the Balance Sheet is prepared in the form of a Ledger Account (i.e. with the customary prefixes "To" and "By," and the customary headings "*Dr.*" and "*Cr.*"), at other times these trimmings are omitted, in which case the items upon the left-hand side are usually headed "Liabilities," and those upon the right-hand side "Assets."

Whatever the precise form a Balance Sheet takes may be, nothing ought to be included upon the left-hand side that does not represent something that the business has to account for to others, but these others naturally include the proprietors of the business. Accordingly, Capital, undivided profits, and reserved profits, are all shown in the Balance Sheet as "Liabilities."

Upon the right-hand side of the Balance Sheet appear those items which from the point of view of the business may be regarded as assets. It by no means necessarily follows that these are all capable of immediate realisation. From the point of view of the business, all debit balances primarily represent outlay of expenditure. Where all benefit ever likely to be derived from the expenditure has already accrued, such

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debit balances have been treated as working expenses or losses, and already debited to Profit and Loss Account. No debit balances ought ever to appear in the Balance Sheet unless there is a reasonable expectation that the outlay already incurred will result in a future benefit sufficient to justify the carrying forward of that expenditure as expenditure representing present or future value rather than worked out expenditure, or loss.

XLVI.—The Balance Sheet as an “Account.”

To determine whether the position shown by a Balance Sheet is satisfactory or otherwise, it is important to remember that floating liabilities can only be discharged out of the proceeds of realising floating assets. Accordingly, where the items in a Balance Sheet are summarised, the grouping must be such as to make it quite clear which are fixed and which are floating assets; while, as regards fixed assets, the grouping should be in sufficient detail to enable their general nature and extent to be ascertained.

There is another way of regarding the Balance Sheet, which brings it more clearly into line with ordinary Ledger Accounts. Regarded as the account defining the position of the business towards the outside world, items upon the debit side of a Balance Sheet represent receipts by the business which have not yet been accounted for by repayment, while items upon the credit or right-hand side represent outlays made from the aforesaid net receipts, i.e. that which the business now has, as representing its sole means of meeting its engagements. This, it will be seen, corresponds with the general rule, that an account is debited with what it receives and credited with what it pays.

XLVII.—“Window Dressing.”

What is called “window dressing” in connection with Balance Sheets is the process of deliberately setting one’s house in order, with a view to the preparation in the near future of a Balance Sheet that will show a stronger position than that shown upon the average throughout the year. In the main, it consists of (a) restricting purchases, with a view to keeping down floating liabilities and stock (the least liquid of the floating assets); (b) energetically collecting outstanding debts, with a view, as far as possible, to reducing Debtors and increasing Bank balances. Probably all published Balance Sheets have been subjected to window dressing in a greater or lesser degree. In itself the process is quite as legitimate as setting one’s house in order, and the fact that it *can* be set in order at all is, of course, a good sign.

XLVIII.—Secret Reserves.

It is obvious that every Ledger balance that comes into the Balance Sheet represents an attempt to measure the magnitude of an uncompleted transaction, and thus, to some extent at least, to foretell what the future has in store. In the nature of things therefore, a Balance Sheet is to a very large extent a matter of opinion, rather than a bare statement of ascertained facts. That being so, and because it is particularly undesirable that an unduly optimistic view of the position should be taken, considerable latitude has to be allowed to those responsible for

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the preparation of a Balance Sheet. It is their duty to allow for any unfavourable contingency which they think likely to occur, but it is also permissible for them to allow for any unfavourable contingency which they think may possibly occur. That being so, a Balance Sheet is not "wrong" or "fraudulent" because it exaggerates the aggregate amount of the liabilities of the undertaking, or deliberately understates the value of the outstanding assets. Such a policy is, in fact, very commonly pursued, and is often spoken of as providing Reserves which are variously described as Internal Reserves, Undisclosed Reserves, or Secret Reserves. To the extent to which the true position is more favourable than the position shown by a Balance Sheet, the undivided profits to that date are in excess of the undivided profits shown by the accounts, but the excess may, of course, be "capital profits." Where the profits of a business are liable to considerable fluctuation, the practice of creating secret reserves is frequently resorted to with the express object of levelling, or averaging, the disclosed profits. In the nature of things, however, this process of levelling necessarily involves the declared profits in certain years being in excess of the actual profits then earned, this excess being brought about by bringing into account (and thus disclosing) undisclosed profits earned in previous years. It is not legitimate to employ "capital profits" for this purpose without a full disclosure of the facts.

Prize Essay Competition.

There were four entries for the Final Division of the December Essay Competition. Excellent essays on "The Duties of a Trustee under a Deed of Arrangement" were sent in by both Mr. Nevil Percy Truman, 20 Waterloo Road, Nottingham, and Mr. B. H. Bottcher, c/o Union Corporation, Ltd., Pinner's Hall, Austin Friars, London, E.C., and we have decided to divide the prize so that each will receive one guinea in books.

In the Intermediate Division the prize of £1 is. in books goes to Mr. H. L. Mead, 21 Sunwell Terrace, Hawk Green, Marple, Cheshire, for a very good essay on The Liabilities of Auditors Generally. Essays were also received from "Pip Squeak," "Veni, Vidi," "San Farian," and "Cymru."

The subjects for next month are:—*Intermediate*: "The Law of Contract in Relation to the Sales of Goods." *Final*: "Statistics: Their Uses and Abuses."

Municipal Finance.—III.

By J. H. McCall, F.S.A.A.

The following article deals with Expenditure out of Loans, the formalities which must be complied with before a Local Authority can borrow money, and the effect of borrowing upon the rates.

Definition of Capital Expenditure.

In the commercial sense, capital expenditure is that outlay which is necessary to place a company or a firm in a position to earn revenue. It is generally considered to be necessary to provide for this out of borrowed moneys, and in the case of statutory companies the Double Account system gives effect to this. With a local authority, however, the position is not quite on "all fours." Whilst it may be true in the case of the trading undertakings, which do earn revenue, it cannot be so in the case of the general accounts, as the purpose to be served by the outlay cannot be said to produce revenue. For practical purposes, capital expenditure by local authorities may be taken to mean expenditure out of loans which have been sanctioned by some Government Department. The purposes for which loans may be obtained are clearly defined, but before a local authority can borrow money, there are certain formalities to be complied with.

Loan Sanctions.

An estimate of the cost of the work is prepared, and after due consideration the Council passes a formal resolution approving same, and resolving also to make application to the Ministry of Health for the necessary sanction to borrow. The Ministry, under certain conditions, will send an inspector down to hold a public inquiry as to its necessity, &c. If everything is in order the Ministry will grant the formal sanction, stating the amount of money which may be borrowed, and, what is more important still, the period specified for its redemption. This term generally has some relationship to the life of the asset, and it has a very important effect upon the finances of a local authority, whether the term or period of repayment is a long or a short one, as will be shown later. It sometimes happens that a corporation will promote a Private Bill in Parliament which may include borrowing powers for the purposes of the Bill.

The methods of financing a local authority for its capital expenditure are many—some of them economically unsound and financially absurd. Let us assume that the necessary sanctions are in hand: the chief methods of financing may be considered *seriatim*.

Temporary Borrowings.

In the case of a large corporation it is not always necessary or convenient to raise the loan before the work has actually been commenced. It may be financed in its initial stages out of the general pooled funds

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of the corporation, in which case it is argued, quite rightly, that the undertaking or rating fund to which the loan repayments will be ultimately chargeable should be properly debited with bank interest. This method resolves itself into the actual practice of temporarily borrowing from the bank, by means of overdraft on Capital Loan Account. If the effect is to create a heavier overdraft than usual at the bank, the bank may object; or they may require to be secured by an actual mortgage of the rates. The general policy of utilising the financial resources of the corporation is good, as by this means time may be taken to choose the best moment for negotiating permanent loans.

Short Term Mortgages.

This is a method of creating a fund for capital outlay by borrowing in small amounts, which are repayable at short notice. It takes advantage of any money which may be available in the local market, but it is hampered somewhat by reason of the necessity of executing a mortgage deed for each amount, and is somewhat expensive on account of the stamp duty payable. Further, the sudden withdrawal of large sums of money may temporarily embarrass the corporation. It is an attempt to obtain money on deposit which is hampered by legal formalities.

Loans on Mortgage.

This is a method of borrowing the exact amount of the sum of the sanction repayable during the period stipulated in the sanction. It is largely adopted by small authorities on account of its simplicity, but it will be shown that it is far from being the cheapest method.

Stock Issues.

The method adopted by the larger corporations for financing capital expenditure is by the issue of stock. In pre-war days the larger corporations frequently borrowed considerable sums of money on Short Term Mortgage, and when the debt thus created reached a figure which, together with sanctions against which no loans had been raised, was sufficiently large to warrant an issue of stock, such was made. The rate of interest payable upon Short Term Loans was generally $\frac{1}{4}$ to $\frac{1}{2}$ per cent. higher than that payable on stock, and thus a saving of interest was effected by paying off the mortgagees out of the proceeds of the stock issue. The consent order of the Ministry of Health provides that Sinking Funds shall be accumulated for the redemption of the stock; but as this period of redemption bears no relation to the repayment periods of the sanctions, which are financed from the stock issue, it very often leads to some confusion of thought on the matter. As a method of raising loans much can be said for it, as it takes advantage of the particular state of the market, and has the co-operation of the banks and financial houses.

Housing Bonds.

This latest method of raising capital moneys for purposes of housing has not been particularly successful. The rate of interest is fixed at six per cent.; certificates may be issued for amounts as low as five pounds, and they are repayable at from five to ten years. The certificates are free of stamp duty, and income-tax is not deducted for holdings of one hundred pounds and less. Owing to the small denominations of the Bonds, the work involved in keeping the accounts is somewhat

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voluminous; and this fact has had something to do with its unpopularity from a corporation standpoint.

In passing, it should be observed that the Treasury are prepared to advance to local authorities fifty per cent. of the proceeds of the National Savings Certificates issued in each authority's area since October 1st 1920.

Such are the chief methods of borrowing for the purposes of capital expenditure. Let us now consider the financial effects of the methods.

Effect upon Rates.

When a local authority borrows money, the immediate effect is to place a charge upon the rates for interest, and in addition to this, a charge for repayment of the amount borrowed. It is important to remember the stipulation as to repayment, as this is one which no commercial company is asked to bear, consequently the liability imposed is apt to be forgotten. It is not unusual to hear schemes advocated on the ground that they will be paid for out of capital, and consequently will not increase the rates. It seems extraordinary that in these days such an unsound argument should be believed by even the most credulous. The financial effect depends upon whether such loan charges have been estimated for in the rate period during which the work has actually been commenced. If no such provision has been made, then the result will be an addition to the sundry amounts which create a rate deficiency; if the provision has been made, then the effect of the charge upon the rates depends upon one or two things which are worthy of consideration. In the first place, the longer the term allowed for repayment, the smaller will be the annual charge upon the rates, but it is also true that, the longer the period of loan repayment, the greater will be the ultimate cost to the corporation.

Again, the rate of interest at which the loan is obtained is a condition which must not be overlooked. We will consider later the relative merits of the various methods adopted for the repayment of loans, and their effect upon the general finances of the corporation, and it will be sufficient to indicate here certain practices which, in my opinion, are contrary to the principles of sound finance. It should be clearly understood that when councillors say, "This is not a revenue charge, but will be paid for out of capital," the intention is to obtain authority to spend money under false pretences. The fact is that the rates are more heavily burdened in the long run, by reason of expenditure out of loans, than they otherwise would be if such expenditure were met by a direct charge to Revenue Account. Although this is quite true, it must be admitted that it would not always be practicable to finance otherwise than by loans, yet it does seem reasonable to suggest that the purpose and the estimated cost of the works should in themselves warrant special financing. It is quite easy to understand that, in consequence of such fallacious reasoning regarding the financial effects of loans, very little regard is taken of the relative importance of the various works to be financed by loans. Loans have to be raised at inopportune times for various sanctions without distinction, creating all-round tightness of money, which penalises good schemes by the inclusion of the bad.

Another financial fallacy is the argument used that the longer the term of the sanction, the lighter the burden on the rates. There might be something in this argument if every corporation had one loan and

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stopped there, but it is only necessary for it to spread its new borrowings over a period of years to see the detrimental effect of not only pledging future rates, but of pledging them for more than half a century. It is curious in this connection to notice that whilst the Ministry of Health would allow a small authority to obtain a mortgage repayable over a period of, say, sixty years—the full term of the sanction—it would not dream of making the date of redemption for stock issued at such a distant period.

I have pointed out previously that the necessity for finding working capital account of ordinary expenditure placed the local authorities under direct obligations to their bankers on account of their having to find the money. This obligation is increased when we take into consideration the capital expenditure. Works are generally started before permanent loans are negotiated, and this creates a bank overdraft on Capital Account. We will have something to say at a later stage on the general relationship between corporations and bankers arising out of this two-fold obligation.

Expenditure in Excess of Sanctions.

The sanction for a capital purpose is based upon the estimated cost, but it very often happens that the estimate is found to be exceeded when the work is completed. In such a case it is usual to include the excess expenditure in new sanctions for similar purposes, but if this is not done, then the excess must be charged direct to Revenue Account. This is mentioned in order to point out that difficulties may arise owing to incorrect estimates being prepared.

It is also interesting to note that the Ministry's inspector goes into the question of cost before the sanction is granted, and so far as I know it ends there; no inquiry is instituted, however erroneous that estimate proves to be in the end.

The Institute Examinations.

The results of the November-December 1920 Examinations of the Institute of Chartered Accountants were as follows:—

	Passed.	Failed.	Total.	Percentage.
Preliminary	169	131	300	56.33
Intermediate... ..	139	94	233	59.65
Final	223	98	321	69.47

The prizes awarded were as follows:—

Preliminary Examination.—G. H. Rosenthal, Nottingham.

Intermediate Examination.—"Frederick Whinney Prize": L. Shapero, London.

Final Examination.—Institute Prize, First Certificate of Merit, and "W. B. Peat Gold Medal and Prize": H. W. L. Reddish, Coventry. "Frederick Whinney Prize": J. B. Watt, Liverpool. "William Quilter Prize": J. K. Carpenter, London.

The "Deloitte Prize" for 1920 was awarded to G. H. Rosenthal, who obtained the first place for the December Preliminary Examination.

Audit Programmes and Procedure—X.

By Andrew Binnie, F.C.A., C.A.

The advice given last month on the Verification of Securities and Documents of Title is continued in the first part of the following article. The latter part is concerned with the important question of apportionment between Capital and Income.

Inspection of Securities and Documents of Title (continued).

Debentures, including Debentures payable to the registered holder or to bearer, or a Debenture Trust Deed or Debenture Stock Certificates issued under a Debenture Trust Deed. The name of the holder and date of issue should be looked at. If the Debenture is redeemable, the date on which redeemable and the provisions for and conditions of repayment should be noted, and repayments traced to the Cash Book. The auditor should see that a copy of the certificate of registration at Somerset House is printed or impressed on the documents in accordance with the Companies (Consolidation) Act, 1908, Section 93. Where there are coupons for interest attached to the Debentures or Bonds, the auditor should see that they are intact, or if the coupons for the next payment of interest have been detached, that they are satisfactorily accounted for.

Life Assurance, Redemption and similar Policies, Life Interests, Reversions, &c.—See the Policies of Assurance, the Receipts for the last premium payable, and the Deed of Assignment assigning the policies to the client. As regards insurance companies, where loans have been made by the company in respect of the surrender value of the policies, the policies should be produced along with the documents of loan. If the whole of the policies are not examined, a sufficient number should be selected by the auditor from the Register of Loans for production. As to Life Interests and Reversions, the assignment should be seen, together with any policies taken out to cover contingencies in respect of Life Interests and Reversions. Notice of the assignment has to be given to the respective companies, and in some cases the auditor may deem it well to satisfy himself that notice has been given.

Loans to Municipal Corporations, Local Authorities, &c.—The Deed or Certificate issued as a receipt for the principal sum should be produced. The arrangements as to repayment should be noted, and care taken that any repayments due have been accounted for.

Trade Marks, Copyrights and Patents.—A certificate of registration should be produced for Trade Marks, and for Copyrights. The Register of Copyrights at Stationers Hall may also be examined. For Patents the Patent should be seen, also the certificate of payment of renewal fees. If acquired by assignment, the Deed of Assignment should be produced.

Title Deeds to Property.—The “Abstract of Title” gives full particulars of all the deeds relating to a property. The auditor should take

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special care to see the conveyance into the name of his client by which the legal estate is vested in the client. In the absence of other evidence as to the authenticity of the deeds, they should, on the occasion of the first audit at any rate, be produced in the presence of a solicitor and verified by him. Where Mortgages of Property are among the securities, the auditor should see that a conveyance of the property is embodied in the mortgage, or that there is a separate conveyance. Where there is an equitable mortgage by deposit of Title Deeds as security, the memorandum of deposit is usually produced, also the conveyance vesting the legal estate in the borrower. A Mortgage Deed of later date, by which the real estate is vested in another lender, has been held by the Court to take precedence over an equitable mortgage by deposit of the deeds. In the case of companies, even an equitable mortgage should be registered at Somerset House, pursuant to Section 93 Companies (Consolidation) Act, 1908. If Life Assurance or Redemption Policies have been effected in connection with any of the leases, they should be produced, also Renewal Receipts for the last premium payable. The Fire Insurance Policies in connection with the properties are not marketable securities, but the Policies or Renewal Receipts are usually seen when vouching the cash. The Register of Rents may be compared with the deeds, and the various rents compared with the Cash Book. Registration of Titles is compulsory in the administrative County of London as regards Freeholds and Leaseholds with 40 years or upwards to run. Registration of Deeds is compulsory in the Middlesex Registry, and in some parts of Yorkshire.

Copyholds.—This form of tenure is unusual, and there are no title deeds. The Court Roll of the Manor is the evidence of title. A certificate known as Copy Admission should be produced.

Capital and Income.

The essence of an audit is to see that Capital and Income are properly distinguished in the accounts, so that nothing is charged to Capital which ought to be charged to Income, thus improperly swelling the Income available for distribution, or the Profits available as Dividend. All additions to Capital should, therefore, be carefully vouched. From a financial point of view, the sound practice is only permanently to capitalise outlays which are directly productive and of a realisable character, and to write off out of Income all other forms of capital outlay, such as preliminary expenses, alterations to premises, fines on renewal of a lease, and such-like, as quickly as may be, in addition to making provision for depreciation of wasting assets. If possible, any losses of capital should also be written off out of Profits over a term of years. This is the conservative practice instinctively adopted in partnerships and in soundly managed companies, and one in which the auditor will naturally concur. Where, however, the interests of Capital and Income may conflict, as for example in the case of Life-Owner and Remainderman, persons sharing in profits under agreements of various types, Preference and Ordinary shareholders, or retiring partners, financial considerations have to give way, and the accounts drawn up strictly in accordance with the legal rights of the respective parties. In such cases the testator's will, the agreements or articles of association, as the case may be, should be carefully studied, and where necessary legal advice procured before settling the Accounts.

Audit Programmes and Procedure.

The leading legal cases bearing on the question of Capital and Income should be read. Many income-tax cases also indicate the judicial view as to the distinction between Capital and Income. A full report of the case *The Ammonia Soda Co., Ltd. v. Chamberlain and Others* (1918, 1 Ch.D. 266), should be carefully studied. This case reaffirmed the legal principle that, subject always to the contents of the articles of association of any particular company, the profits earned in any one year may be distributed as dividend without providing for losses sustained in previous years, or to put it in another way, although there be "a debit to Profit and Loss Account." The principle is a dangerous one, and obviously open to manipulation and abuse. For example, profits might be made to alternate with losses year by year. It seems clear that if Profits are paid away, although a debit to Profit and Loss Account is being carried forward, Capital is being entrenched upon to provide the dividend. In such a case, should it arise, the duty of the auditor is to see that the facts are fully disclosed to the shareholders, as, in fact, they were in the case referred to. As mentioned under "Reserves," it has been suggested, on the strength of this case, that Capital assets may be written up on a revaluation, the increase carried to a reserve, and the reserve divided in the shape of bonus shares. A study of the case does not bear out this suggestion, for the decision turned on the principle already mentioned, that previous losses need not be made good out of subsequent profits before paying a dividend. In any case, an addition to the valuation of what is already the company's property does not seem to be good consideration for an allotment of shares. The following cases should also be read:—*Lee v. Neuchatel Asphalte Co.* (L.R. 41, Ch. Div. 1); *Verner v. General & Commercial Investment Trust* (L.R., 1894, 2 Ch. 239); *Re National Bank of Wales*; *Cory's case* (L.R. 1899, 2 Ch. 629), which went to the House of Lords as *Dovey v. Cory* (L.R. 1901, A.C. 477, 17 the *Times* Law Reports, 732). As regards Trust Accounts see Gover on "Capital and Income," (Sweet & Maxwell, Ltd.).

Calls in Advance.—Calls paid in advance should be set out separately in the Balance Sheet. They are not part of the Share Capital, and rank as creditors in a winding-up.

Premiums on Shares.—The premiums are usually carried to a Reserve, or applied to writing off Capital outlays, but there is no legal objection to dividing them by way of dividend, unless, as is unlikely, the articles provide otherwise. The premiums should be agreed with the particulars given in the prospectus or circulars relating to the issue, and the list of allotments as signed for identification by the Chairman.

Forfeited Shares.—The auditor should read the provisions of the articles of association as to forfeiture, and see that the necessary minutes have been regularly passed and notice given to the shareholder in accordance therewith. After forfeiture, the cash received on account of the forfeited shares should be transferred from Share Capital Account to Forfeited Shares Account. If the shares be realised, the cash received up to the nominal amount should be credited to Share Capital Account. Any surplus may go to Forfeited Shares Account. The balance of Forfeited Shares Account is divisible as dividend unless the articles provide otherwise, but it is usually carried to a Reserve.

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Fully Paid Shares.—The auditor should carefully examine the conditions under which any fully paid shares are allotted, especially in the case of private companies, in which irregularities are apt to arise. Illustration : The buyer of a business carried on by a private company agreed to carry out the purchase by acquiring all the shares of the company consisting of 5,000 of £1 each. The buyer paid the par value of the shares, but paid a further £4,000 as representing Goodwill, Leases, Book Debts, and Stocks, less creditors and apportioned expenses. In effect he paid a premium of £4,000 for the 5,000 shares. The Board allotted 4,000 additional fully paid shares of £1 each to him in consideration of the additional £4,000 he had paid for the surplus of the assets over the liabilities, overlooking the fact that the surplus represented the 5,000 shares he had purchased. Here there was an evident confusion of thought between a buying of shares and the buying of a business on the usual completion statement. As there was no good consideration for the additional shares, the buyer would have been liable on a winding-up to pay up in full.

Stabilisation of Imperial Exchanges.

Although the general features of the scheme for an Imperial currency, put forward in Mr. J. F. Darling's paper recently read before the Institute of Bankers, are not new, they deserve consideration. The main idea is that currency would be issued partly against gold and partly against commodity bills of exchange, and would be legal tender throughout the Empire. Apparently there would be no limit to the amount of currency which might be issued against bills of exchange. It is clear from the discussion which followed the paper that, while the members recognised the desirability of the object aimed at by Mr. Darling, and the ingenuity of his proposal, they were not at all agreed on the question of practicability. The *Times* reminds us that a currency which could be expanded according to the amount of bills of exchange created, without limit and without any relation to the amount of gold backing, would necessarily fluctuate considerably in value in foreign currency, and would not only be opposed to accepted principles, but would cause sharp fluctuations in prices. All the designers of schemes to support exchanges seem to forget that gold is the only universal legal tender, and that the best remedy is that distasteful thing—work.

Income Tax Practice—X.

The assessment of businesses carried on abroad is beset with considerable difficulties, and there have been many cases in the Courts where the particular facts of the case have had a vital effect. Our contributor deals fully with the question in the following article.

Foreign Businesses.

The elements of delivery, payment, and place of contracts have been extensively dealt with in the Courts, but practically the sole relevant question for businesses carried on here for a non-resident is: Where were the contracts made? If abroad, there is no liability, and if here there is. For a business carried on abroad by a resident, the question is mainly: Is the control here? These are broad and general bases.

The charging sections are as follow:—

Income Tax.

The annual profits arising or accruing to:—

(a) Any person residing in the United Kingdom from any kind of property whatever, whether situate in the United Kingdom or elsewhere.

(b) Any person residing in the United Kingdom from any trade, profession, employment, or vocation, whether the same be respectively carried on in the United Kingdom or elsewhere.

(Rule 1 of Schedule D.)

Excess Profits Duty.

The trades or businesses to which this Act applies are all trades or businesses of any description carried on in the United Kingdom, or owned or carried on in any other place by persons ordinarily resident in the United Kingdom. (Section 39 of 1915 Act.)

It will be seen that the above enactments are very comprehensive, and that "residence" is an important factor. It has been laid down by the Courts that a man may have more than one residence, and that a company resides where it keeps house, i.e. where its directors control the business abroad, not merely where they dispose of the profits. It was held in *Egyptian Hotels, Ltd. v. Mitchell*, that, where a company transfers the absolute control of its foreign or colonial business to a foreign or colonial Board, there is no liability to income-tax on the full profits of that business, but only on the sums remitted to the United Kingdom for payment of dividends, even though the Board here could starve out the foreign or colonial Board by stopping remuneration, and even though the accounts were kept here and dividends declared here. For Excess Profits Duty a business abroad is covered if it is only *owned* here.

In order, therefore, to give income-tax liability here on a business carried on abroad, the business must be controlled here, and, where the

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business is carried on here by a non-resident, the contracts must be made here. If orders are obtained here and sent abroad for acceptance, the contracts are made abroad, and there is no income-tax liability.

Case 5, Schedule D.

Foreign income of a resident here is assessable under Case 5 of Schedule D if it is of the following nature :—

- (a) Profits of a sleeping partner.
- (b) Profits of a resident partner in a business abroad when that business is controlled abroad.
- (c) Shares in companies abroad.
- (d) Rents from property abroad.

The basis of Case 5 is the three years' average, but the first two items only assessable on remittances to this country.

Case 4, Schedule D.

This case applies to foreign and colonial Government Stocks, and the basis is the full *income* of the year of assessment.

The following provisions should be noted :—

(1) Where any trade or business is carried on by two or more persons in partnership, and the *control and management* of such trade or business is situate abroad, the trade or business shall be deemed to be carried on by persons resident outside the United Kingdom, notwithstanding the fact that some of the partners are resident in the United Kingdom, and that some of the trading operations of the partnership are conducted here.

Where part of such trading operations consists of operations within the United Kingdom, the firm is liable on the profits of such operations to the same extent as a person resident abroad is chargeable in respect of trading operations by him within the United Kingdom.

(Rule 12 to Cases 1 and 2, Schedule D.)

The meaning of the second paragraph of the above is that no liability shall attach in respect of the profits made abroad. The partner resident *here* is thus liable on his share of the profits made here plus, under Case 5 of Schedule D, his share of the profits made abroad in so far only as such share is remitted to this country.

(2) Where a non-resident person who is not a British subject or a British, Indian, Dominion, or Colonial firm or company, carries on business with a resident person, and owing to the close connection between the resident and the non-resident, and to the substantial control exercised by the non-resident over the resident, the course of business is so arranged that the business done by the resident in pursuance of his connection with the non-resident produces to the resident smaller profits than the ordinary profits which might be expected, the non-resident is assessable on the proper profits in the name of the resident.

If the profits of the non-resident cannot readily be ascertained, the assessment may be made on a percentage of the turnover.

(Rules 7 to 10 of General Rules.)

Income Tax Practice.

(3) Merchants' Profits.

Where a foreign manufacturer sells goods here through an agent it is unfair to charge him on the full profits from those goods, as part of the profit arises from the manufacture (which is wholly done abroad), and the remainder from merchanting the goods (which is done here). To meet this difficulty, it is provided that the assessment may be made on the basis of the profits which might reasonably be expected to have been earned by a *merchant*, or, where the goods are retailed for the manufacturer, by a *retailer*, who bought from the manufacturer direct.

(Rule 12 of General Rules.)

The principle of this is that, instead of debiting cost of *production*, the debit may be the price which would be paid by a merchant, i.e. the wholesale market value.

Employments Abroad.

In the case of employment under an English company exercised abroad, the remuneration is not liable under Schedule E, as laid down in *Pickles v. Foster*.

In *Thomson v. Bensted* a man was employed by an English company as agent in Nigeria. He was the rated occupier of a house here, where his wife and family resided, and he was personally present there during four months of the year of assessment. It was held that he was resident in the United Kingdom, and correctly charged with tax on his remuneration in so far as it was received by himself or his family in the year of assessment. The Court decided that he "did reside during the *whole* year, in the sense of the said Acts, where that house was," and that it is "settled that a man may be held to have his residence, and to reside, at one time in more than one place."

Punctual Payment.

The decision of the House of Lords in *Gatty v. Maclaine* should be noted. The facts were simple. A. borrowed £36,000 in 1910, repayable on Whitsun Day 1911 with interest at 5 per cent. It was agreed that if the interest was paid punctually the loan would not be called in for fourteen years, and the rate of interest would be 4 per cent. The interest due on 1st February 1918 was not paid until 13th May, and the interest due on 24th July was not paid until 7th August, when it was declined, and interest at 5 per cent. was claimed. The Court of First Instance in Scotland decided that there had not been any default in punctual payment. The Scottish Court of Appeal reversed that decision, and the House of Lords has now affirmed the decision of the Court of Appeal.

EDITORIAL.

The long-looked-for and feverishly anticipated results of the recent examinations of the Institute and Society are at last published, and whilst the majority of candidates are filled with elation and a due sense of the importance of their newly-found professional dignity, there are, unhappily, a minority, some of whom are doubtless feeling very crest-fallen and depressed, and full of despair at their want of success, whilst others are setting their teeth in the fixed determination to prove to the examiners at some future date, that they are not such fools as to be discouraged by their misfortune.

To the successful candidates we extend our warmest congratulations, and wish them a brilliant future in their chosen profession; to the latter and less fortunate students we offer our heartfelt sympathy, and venture to add a few words of comfort and encouragement. Emerson wrote a very illuminating essay on the law of compensation, showing, *inter alia*, that every ill has its compensating good, and whilst it is no doubt difficult for the disappointed candidate to see exactly where the compensation for his failure comes in, we shall endeavour to show him in which direction this may lie.

Life is full of disappointments, and at some time or another failure is bound to be the portion of everyone, but *failure* must never be allowed to spell *defeat*, for throughout the history of the world, whether national or individual, the greatest victories have often been won after lamentable failures.

Disappointment and disaster often develop a man's character, and bring out the dogged British pluck and bulldog tenacity of purpose that has over and over again led men on to brilliant successes. The man who has sat for an examination and *failed*, even more than once, must *not* be discouraged; he will naturally feel that he is to a certain extent discredited in the eyes of his fellows, but for all that, when by sheer pertinacity and devotion to study he finally secures his diploma, it is more than probable that he will make a better professional man, and know infinitely more about the details of his profession than the man who just scrapes through at his first sitting. Although many people scorn the word *luck*, yet under the existing conditions of conducting examinations, luck undoubtedly plays a considerable part in determining success or failure.

A student may often happen to look up some special points on the way to the Examination Hall, and to his joy finds the very questions put before him by the Examiner, and so secures success, but this by no means necessarily results in his becoming a successful accountant.

There are many factors involved in satisfying the requirements of Examiners, and one that plays a fundamental part is the *temperament* of the candidate. Our nerves play us many unaccountable tricks, and a man with a highly-strung constitution, particularly susceptible to his environment, is at a very serious disadvantage in the Examination Hall. He may know all the Examiner requires of him, yet his brain refuses to work, and he suffers from a species of mental paralysis, which entirely precludes him from putting on paper the answers he really knows per-

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fectly well. For this unfortunate disability there is no cure except experience and constant tests, by working under examination conditions against time, for only thus will confidence be gained, and only confidence and a belief in one's own powers to do what is necessary, will overcome this species of stage fright. Another cause of failure is lack of methodical work, and the student who does not follow a carefully prepared course of study, and faithfully adhere to it, is at a serious disadvantage, and is much more likely to meet with failure than success.

Amongst the failures will probably also be found the men who know that it is immaterial to their future needs whether they pass or fail. They have plenty of money to burn, and think because they go to an expensive coach and attend lectures (usually without taking the trouble to make notes), that is *all* that is necessary to secure a pass. We cannot too strongly emphasise the fact that it is what the student does *himself*, and not what his coach can do for him, that makes for success. So many make the mistake of contenting themselves with a *study* of the worked out questions in past *Telephones*, but to rely on this method of acquiring knowledge of accountancy means disaster, for it is only by constant practice, and by working out examples in every detail, that method and accuracy can be achieved.

An examiner has no use for candidates who are untidy and slovenly in their work. Cultivate habits of neatness directly your studies commence, and you have built a good foundation for future success.

Still another cause of failure may be attributable to *over confidence*, or swelled-head; avoid this to the utmost of your ability, or it will surely lead to disaster sooner or later, if not in accountancy examinations then in other directions.

Don't take your failure to heart *too* seriously then; it will no doubt have a chastening effect, but it should at the same time have a bracing one. If you have not taken your work conscientiously enough, make up your mind to cancel all social engagements and amusements until the next examination, devoting *all* your spare time, apart from that necessary for healthful exercise, to the work upon which your whole future career may depend. If your method of work is not consistent with the best traditions of those who, by reason of their experience, are best qualified to advise you, then change your methods at once and adopt theirs.

Never, in the world's history, has there been so pressing a need for efficiency in professional and business methods. Therefore, strain every nerve to make yourself efficient and proficient in every branch of accountancy work, and determine with all your might that out of the ashes of your past failure, phoenix-like, a glorious success shall arise.

It is usually possible for a student who has failed, to obtain official information as to the cause of his downfall, therefore he is enabled to strengthen his defences, and make the weak places strong.

If any unsuccessful candidates omitted to read our last two Editorial articles on "Advice to Students," we recommend them to their notice, as a few useful hints may be found therein for remodelling their scheme of work. This article may prove but cold comfort to disappointed

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students, but our remarks are offered in all sincerity in the sure belief that it is possible for any man who is worth his salt to turn his reverse into a triumphant victory.

Ella Wheeler Wilcox understood the position when she wrote the well-known lines:—

“ It is easy enough to look pleasant,
When life goes by like a song,
But the man worth while is the man who can smile
When everything goes dead wrong.”

Therefore, we bid all “ failures ” smile, not with a sickly grin, but with confidence and determination, making a firm resolve to go in again and win, not merely a Pass next time, but Honours.

Queries and Replies.

(Correspondents who wish to make use of this column are requested to write their queries on one side of the paper only and to be as brief as possible. There is no need to enclose a covering letter if the communication is headed “ Accountants' Journal, Queries and Replies column,” and signed at the end with the name and address of the sender, which will not be published if the query is signed with a nom de plume.)

Payment by Cheque.

A banker sells stock for a client, the latter requesting payment by cheque. A cheque is duly posted, but fails to reach its destination. The client demands a duplicate. Can the banker, before issuing a duplicate, demand an indemnity in respect of the original? If not, and considerable delay in settlement occurs through the banker's refusal to pay without the indemnity, can the client demand interest from the time when the settlement should have been made?—S. B.

As the customer himself requested the remittance to be made by cheque, the bank are quite justified in making a demand for an indemnity, and we do not think that any claim for interest would hold good, unless there was an express agreement to pay interest in case of postponement in settling, or an implied contract to do so by a course of previous dealing.

Allowances for Wear and Tear.

A manufacturing concern, of which I am Secretary, was converted into a Limited Liability Company on the 1st January 1920; there has been no change of ownership, the shares being held by the people who were interested in the concern before the conversion took place. But the assets are shown in the new company's books at largely appreciated figures, which were arrived at after a proper valuation had been made; the business carried on is exactly as before. I should like to know whether my company can claim allowance for wear and tear on the written up assets as shown in its books to-day?—“ CHANGE.”

We think the Inspector would only admit a claim in respect of wear and tear of assets based on their value as shown by the books of the firm before conversion into a Limited Liability Company.

Income Tax Notes and Comments.

In this column Income-tax recent alterations of law and practice are discussed and explained and readers' queries are answered. Arrangements have been made to reply to these queries by post, the replies being published subsequently in the "Journal" under noms de plume. A stamped addressed envelope should be enclosed with the queries and the service is limited to subscribers to the "Journal."

Losses.

Claims for losses under the old Section 23 of the 1890 Act should now be investigated. Legally they must be made within six months of the end of the year of assessment, but, in practice, they are admitted within twelve months, so that claims for 1919-20 should not be delayed. It should be noted that, although these claims only give in general cases an immediate relief instead of allowance in the averages of the three subsequent years, they give an additional relief when subsequent averages would, in the ordinary course, be average losses.

Uncompleted Contracts.

In making up Work in Progress Account, two or three of the uncompleted contracts are known to be unremunerative, and it is desired to make a deduction from such account for loss estimated to have been incurred during the period under review.

1. What is the best method to allow and account for such deduction?
2. Would such deduction be allowed as a charge against current profits for income-tax and Excess Profits Duty?

The estimated loss is a proper charge for income-tax and Excess Profits Duty. For the latter, paragraph 11 of Part I of the Fourth Schedule allows a spreading of contracts over the period of execution, but only in proportion to the execution.

Substituted Standard.

A private limited company was registered in April 1920, the conversion dating back to July 1919 (the date of the last Balance Sheet). In calculating their Excess Profits Duty liability, July 1920, can the "substituted standard" be claimed, comprising an allowance of £500 for each director holding 20 per cent. (or more) of the value of the issued capital, to a maximum of £750 for each director?

The substituted standard can be claimed for those directors who have devoted their full time to the company during at least half of the accounting period.

Agents.

A., a foreigner, resident in England, is employed as agent of B., a manufacturer resident abroad. A. merely books orders which he sends to B. for execution. B. sends goods direct to customers and the customers remit cash direct to B. Is B. liable to pay United Kingdom income-tax, and, if so, is it assessable on A. as B.'s agent? Further: If A.'s commission is credited to his banking account abroad, is he liable to pay United Kingdom income-tax thereon?

There is liability on A., as agent of B., if the contracts are made here. If A. merely obtains orders which have to be sent to B. for acceptance, the contracts are made abroad and there is no liability. A., being a resident here, is liable on his commission whether paid here or not, as it is income

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from a vocation followed here and, as such, assessable under Case 2 of Schedule D on average.

Reduced Profits.

Profits of a limited company established, say, 1910 :—

Accounts Year to December 31,	1915 ..	£	
"	1916 ..	800	
"	1917 ..	1,200	
"	1918 ..	1,200	
"	1919 ..	1,000	
"	1920 ..	400	Diminution due to general trade conditions

Income-tax assessments, Schedule D. :—

1918-19	1919-20	1920-21
£	£	£
600	800	1,200
800	1,200	1,200
1,200	1,200	1,000
3) 2,600	3) 3,200	3) 3,400
<u>£867</u>	<u>£1,067</u>	<u>£1,133</u>

There is no question of discontinuance of the business.

(1) Can a claim be made for reduction of the assessment for 1920-21 (viz. £1,133) seeing that the profits for 1920 are down to £400; if so, under what section?

(2) Income Tax Act, 1918 Section 149—Statement of Case for Opinion of High Court.

Under paragraph 1 (c) a fee of 20s. is payable to the clerk. Presumably this is not returnable. What about the costs mentioned in paragraph 2 (a)? As a general rule do these amount to much, and are they ordered to be paid by the losing party?

(1) No.

(2) The fee is not returnable. The costs of a case in the High Court vary in accordance with the intricacy of the case and the Counsel engaged. Generally speaking, they would be fairly heavy. The losing party is generally mulcted in the costs.

Interest.

(1) The Interest Account of a limited company is as follows :—

Dr.				Cr.			
	£	s	d		£	s	d
Gross Interest payable ..	364	0	0	Gross Interest receivable ..	214	15	0
Less Tax deducted ..	109	4	0	Less Tax deducted ..	63	19	4
			254 16 0				150 15 8
				Balance of Revenue Account ..			104 0 4
			<u>£254 16 0</u>				<u>£254 16 0</u>

Income Tax Notes and Comments.

The profit for the year (including debit of £104 for interest) is, say, £1,000. The Inspector contends that the assessable profit for the year for average is :—

	£
Gross Interest paid	1,000
	<u>364</u>
	1,364
Less Tax Dividends (net) ..	<u>151</u>
	<u>£1,213</u>

To the correspondent it seems that, seeing the gross interest payable has been added back, the gross interest receivable should be deducted. You will note that the difference between £364 and £151 is £213, not £104, as debited against the profit.

(2) A company changes the date of its financial year end, and, in consequence, one accounting period contains 13 months as follows :—

	1917-18	1918-19	1919-20
	12 mos.	13 mos.	12 mos.
Profit.. ..	£100	£500	£600

The Inspector has computed the average as follows :—

1918 (11/12ths of 100) ..	=	£92
1919	=	500
1920	=	600
	3)	1,192
		<u>£397</u>

To the correspondent the fair basis would seem to be the aggregate profit divided by 3.1/12th years, or to take 1/12th off the £500.

(3) The company has paid £5 Corporation Profits Tax for the period ending 30th April 1920. Is this deductible from the assessment for the year 1921-22?

(1) The position is (a) that the debit for interest paid has to be eliminated and (b) the credit for interest received similarly treated. The effect of debiting the balance of the Interest Account is the same as if there had been a debit of net interest paid, £254 16s., and a credit of net interest received, £150 15s. 8d., so that the adjustment should be :—

Profits	£
Add interest debit	1,000
	<u>104</u>
	<u>£1,104</u>

If there were no interest received, the debit would be £254 16s., and that would be the figure to add back, i.e. the amount already charged.

(2) The usual practice is to split the first of the three years. If 1/12th is taken off the £500, the average is not of the three preceding years, so that the 1918-19 and 1919-20 profits should come into average in their entirety.

(3) Yes.

Separate Assessment.

A private limited company (beer bottlers), consisting of two directors who equally hold all the shares, was incorporated in 1912, and during the war years were liable for Excess Profits Duty and therefore paid its liability. Now the same directors carry on quite a different business from May 1919 as a partnership, and use the company's premises for the new business, both being under one roof. The money to commence the partnership is supplied by the company, who would receive a rate of interest (this business is a nail business), so that it is quite distinct from the other. The point is, as

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the directors of the company are the partners of the firm, can they claim to be assessed separately for Excess Profits Duty and treat the businesses as two separate ones? On the other hand, if the nail business is a losing one, can they set off losses against the company's profits?

The two businesses must be separately assessed, but a loss on one cannot be set off against a profit on the other. If the company had been carried on by the partners without limited liability, the set-off could have been given.

Dividends.

A private firm converted their business into a limited company and was registered on the 1st June to take over the business as from the preceding 1st January. There was a loss of £800 for the period prior to incorporation which was capitalised. On the year's trading, to 31st December, the Profit and Loss Account showed a profit of £300 after capitalisation of the loss. The company declared a dividend out of this profit and issued the usual certificate as to payment of tax, viz. "that the tax will be paid to the proper officer for the receipt of taxes," although the shares were 5 per cent. Preference and paid "free of tax." On personal income-tax return a shareholder claimed the relief of 3s. in the £ on the amount of the dividend.

(1) For income-tax purposes would the company be liable for tax on the £300. It is assumed that the Revenue would compute a loss of £500 in making out their liability?

(2) If the company was not assessed to tax, what would be the position of the shareholder?

The dividend is correctly paid under the Companies Acts, but according to the Income Tax Acts is not "paid out of profits or gains brought into charge."

The company would only be liable from 1st June, as the taking over of prior profits or losses is only an adjustment of the purchase price. The 1920-21 assessment—arrived at on the firm's profits of the three years preceding—would be divisible between the firm and the company in the proportions, 2/12ths and 10/12ths. It would be open to the firm to claim repayment on account of the loss to 1st June under the old Section 23 of the 1890 Act, and, at the end of 1920-21, the company could claim adjustment to the actual profits made from 1st June 1920 to 5th April 1921, or, if the trading year were to 31st December, to 10/7ths of the profits from 1st June to 31st December. This adjustment is by claiming a "specific cause" of payment of directors' fees, under the old Rule 4 to 1st and 2nd cases of Schedule D. The company would thus be assessed on a figure in excess of the dividends, unless the firm's average gave a smaller figure. If it does, the profits distributed as dividends will come into subsequent averages even though in such subsequent years the company may not distribute a dividend.

Allowances.

A dependent daughter of a widower gives birth to a child in the beginning of November 1920. The daughter acts as housekeeper to her father and now looks after the child, which has been adopted by her father. Under these circumstances can the widower claim a rebate in the following manner, viz. :—

Housekeeper's allowance	..	..	..	..	..	£
Do., looking after child as from Nov. 1920	..	..	..	..	..	25
Allowance for child adopted as from Nov. 1920	..	..	..	..	..	10
						18
						<hr/>
						£53

The child's allowance only applies to a child living at 6th April 1920.

The allowance for the daughter can only be made if the father is suffering from old age or infirmity.

The allowance for looking after a child only applies when the child is one in respect of whom a deduction is allowed.

Correspondence.

Schedule B.

(To the Editor of The Accountants' Journal.)

SIR,—In your Income Tax Notes, on page 491 of the December issue, I observe that you state that :—

“ The Schedule B assessment is double the gross Schedule A, and the Schedule A is the annual value.”

I would point out that this statement is not strictly correct in all cases, as the amount of tithe paid in country districts has a considerable effect on the assessment.

The annual value for Schedule B is deemed to be the rental plus the amount of tithe paid, and the assessment will be made on twice this figure.

I may say that where the tithe owner is assessed direct in respect of the tithes received, the payer or owner of the land is allowed to deduct this amount in arriving at the gross Schedule A. This deduction, however, is not allowed for Schedule B, so that any assessment on double the Schedule A would be incorrect.

The following example of the relation existing between the Schedule A, B, and Inhabited House Duty assessments may be useful to some of your readers :—

Property.	Annual Value.	
Farm House	£40	} £350
Buildings	£10	
Land	£300	
Tithe paid by owner ...	£20	
<i>Schedule A Assessment—</i>		
Total Rent	£350	
Less Tithe	20	
Gross Assessment	<u>£330</u>	
<i>Schedule B Assessment—</i>		
Total Rent	£350	
Less House and Buildings	£50	
assessed to House Duty	50	
Single assessment value ...	<u>£300</u>	Double value = £600
<i>House Duty Assessment—</i>		
Value of House and Buildings, £50.		

The cross check is obtained as follows :—

Schedule A assessment = Schedule B assessment plus House Duty assessment less tithe.

The repairs allowance for Schedule A is made as follows :

Repairs } = $\frac{1}{8}$ of House Duty Assessment.
Houses }

Lands = $\frac{1}{8}$ of Schedule B Assessment.

From the above it will be seen that the Schedule B is not double the gross Schedule A assessment.

Yours faithfully,

Wrexham, 4th December 1920.

CHAS. WRIGHT.

[The statement is a general one. The tithe rentcharge, where payable, is deducted in arriving at the gross Schedule A but added for Schedule B.
—ED.]

Legal Notes.

By Albert Crew, Barrister-at-Law.

An up-to-date knowledge of recent decisions in the Courts is of the greatest value to accountants and business men and to students reading for their examinations. In this column are noted the salient features of the leading cases decided during the preceding month.

Action.

Trade Association and Conservation of Prices.

The defendants, an association or trade union of motor manufacturers, published what was called a protected list of prices at which motor and motor accessories were to be sold by their members. They also published periodically a list called a "stop list," containing the names of traders who sold at prices different from those in the protected list. Any person or firm so named, or those dealing with them, were not to be supplied directly or indirectly by members with the articles named. The plaintiffs, who were not members of the association, acted as agents for selling a new motor-car belonging to a person who was not a member of the association, and they advertised the car for sale at a price in excess of that which such a car was listed at in the protected list. The defendants thereupon threatened to put the plaintiffs' name in the stop list, and after correspondence, in fact, did so. It was held (reversing the decision of Rowlatt, J., see *Accountants' Journal*, August 1920, p. 245), by the Court of Appeal, that in the absence of evidence that the defendants had acted otherwise than *bona fide* in the interest of their members, the defendants had not committed a wrongful act in attempting to prevent the plaintiffs, by means which were not illegal, from selling the motor-car at a price different from that in the protected list. *Wake & De Freville, Ltd. v. Motor Trade Association* (1921, 65 S.J. 239).

Assignment of Debt.

Notice of Assignment.

By Section 25 (6) of the Judicature Act, 1873, an assignment in writing of a debt is effectual in law to pass the legal right to the debt of the assignee, provided that express notice in writing of the assignment has been given to the debtor. But the assignee cannot sue for the debt if, owing to the fact that the debtor cannot read, no notice in writing of the assignment has been given to him, although other steps have been taken to bring the assignment to his attention. The fact that the debtor has paid to the assignee a sum on account of the assigned debt, does not prevent him, when sued for the balance of the debt, from pleading that he has not received written notice of the assignment. *Hockley v. Goldstein* (1920, 25 Com. Cas. 284).

Equitable Assignee of a Part of a Debt and Petition for Winding-up.

An assignment of a part of a debt is not within Section 25, Subsection (6) of the Judicature Act, 1873, which provides that any absolute assignment of any debt in writing (not purporting to be by way of charge), of which notice has been given to the debtor, shall pass the legal right to such debt. An equitable assignee of a part of a debt is a creditor in equity, and can present a winding-up petition under Section 137 of the Companies (Consolidation) Act, 1908. *In re Steel Wing Co.* (1921, 65 S.J. 240).

Bankruptcy.

Protected Life Interest until he should Assign.

A debtor was entitled to a life interest in a legacy until he assigned or incumbered it. A receiving order was made against him, but it was rescinded on the Court approving a scheme for a composition. The debtor then signed a document

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authorising the trustees of the will to pay the income to the trustee of the scheme. It was held that the document was an equitable assignment which worked a forfeiture of the legacy. *Re Hamilton* (1920, 65 S.J. 173).

Loan by Wife for Purposes of Business.

Where a woman lends money to her husband, and then accepts from him, in lieu of the money lent, a bond to secure an annuity payable by him for her life, and he subsequently is adjudicated a bankrupt, or dies insolvent, she may claim in the bankruptcy or in the administration by the Court of his estate for the value of the annuity in competition with the creditors of the husband. *In re Slade* (1921, 1 Ch. 160).

Companies.

Alteration of Articles.

In a motion by a shareholder of a company for an injunction to restrain the defendants from holding an extraordinary general meeting to confirm a special resolution which had been passed at a previous meeting, adopting new articles of association in substitution for the existing articles, the shareholder asserted that the alterations in the articles were not for the benefit of the company, but for that section of the shareholders represented by the defendant firm of managers. The defendant company were the owner of certain steamships, and it was customary in such cases for the entire management to be vested in some shipping firm, as was done in this case. Some of the proposed alterations, e.g. the right of pre-emption of shares (i.e. purchase by one person or corporation before an opportunity is offered to others), the largely increased remuneration, and also a provision which practically prevented the shareholders from calling the managers to account, were not for the benefit of the company, but for that of the managers, and it was held that the power to alter articles had to be exercised subject to the general principles of law and equity applicable to powers conferred on majorities to bind, and must be *bona fide*, following *Allen v. Gold Reefs* (1900, 1 Ch. 656), *Dafen Tinplate Co.* (see *Accountants' Journal*, June 1920, p. 121), and *Sidebottom v. Kershaw* (1920, 1 Ch. 450), and the injunction was accordingly granted. *Jonas v. Orders & Handford Steamship Co.* (*The Times*, 13th November 1920, p. 4).

Repudiation of Contract to take Shares and Rectification of Register.

The defendant applied for, and was allotted, shares in the plaintiff company. Shortly afterwards, alleging a misrepresentation of fact in the prospectus, he wrote to the company repudiating the contract, and claiming the return of the amount he had paid on application and allotment. He did not, however, follow this up by a prompt application for rectification of the register of shareholders. Receiving notice of the first call, he ignored it, and some months later the company sued him in the City of London Court to recover the amount. By way of defence, he relied solely on the misrepresentation and on his repudiation. Judgment was given for the company apparently on the ground that the defendant was precluded by his laches from succeeding. On appeal, it was held that it is not sufficient to escape liability for calls for a shareholder who complains of misrepresentation in a prospectus to content himself with writing to the company purporting to repudiate the contract to take shares; he must follow up that step promptly by proceedings to have his name removed from the register of shareholders; and as the defendant had not done this, he was held liable for the calls made upon him. *First National Re-insurance Co. v. Greenfield* (1921, 151 L.T. 37).

Contract.

Goods Lost in Transit.

A forwarding agent, who has undertaken for reward to forward goods from England to a foreign country, and has made the usual and proper arrangements for their carriage, is not liable if the goods are lost while in the custody of the customs authorities of the country to which they were being sent. *Jones v. European & General Express Co.* (1920, 25 Com. Cas. 296).

C.I.F. Contract and Cash against Documents.

In a contract for the sale of goods upon C.I.F. terms, where payment is to be made "net cash against shipping documents on arrival of goods at port of dis-

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charge," the documents to be presented by the seller to the buyer must include a policy of insurance on the goods, and it is not sufficient for the seller to present a cover-note or a certificate of insurance instead of a policy. *Wilson Holgate v. Belgian Grain Co.* (1920, 25 Com. Cas. 1).

Validity of Agreement.

In the absence of very special circumstances, the English Courts will not enforce an English contract which provides that it shall be performed in a foreign country if at the time fixed for performance the law of that foreign country makes performance there illegal. *Ralli v. Campania Naviera Sota y Aznar* (1920, 25 Com. Cas. 227).

Auction Sale and "Knockout."

An appeal in this case, reported in the *Accountants' Journal* (July 1920, p. 180), was allowed by the Court of Appeal. *Rawlings v. General Trading Co.* (1920, 123 L.T. Rep. 718).

A knockout is an agreement between two or more persons attending an auction not to bid against each other, so as to avoid putting up prices, and then to share the profits of goods bought by any member of the combination. These members hold a private auction among themselves immediately after the public auction, and share between themselves the difference between the public auction price and the private auction price. Scrutton, L.J., dissented, and thought a knockout was in restraint of trade, and arguing backwards from the remedy to the right, said he could not imagine any Court granting an injunction to enforce such an agreement; and, if this were so, how, he demanded, could the Court be asked to enforce it by ordering an account of profits? (1921, 56 L.J. 2).

Annulment of Contract Owing to Hardship Caused by War.

A contract may be annulled by the Court owing to "alteration of trade conditions occasioned by the war" under the Courts (Emergency Powers) Acts, even though such trade conditions are not occasioned solely by the war, but only aggravated by it. *North Metropolitan Electric Power Supply Co. v. Stoke Newington Corporation* (1921, 65 S.J. 240).

Landlord and Tenant.

Meaning of "Rent."

Where a dwelling-house in July 1916 was let at £30 per annum, the landlord paying rates and taxes amounting to £31 18s. per annum, and the rateable value on August 3rd 1914 was £40, it was held that such house was not let at a rent of less than two-thirds of the rateable value within the meaning of Section 12, (7) of the Increase of Rent, &c. Act, 1920 (which provides that the Act of 1920 shall not apply to the rent or tenancy of a dwelling-house where the rent is less than two-thirds of the rateable value, and shall apply in respect of such dwelling-house as if no such tenancy existed, or ever had existed), and that the word *rent* there meant the actual rent reserved by the lease or agreement without any deductions for rates or taxes, although such were paid by the landlord. *Mackworth v. Hellard* (1920, 37 T.L.R. 157).

Receipt of Rent with Knowledge of Breach of Covenant.

A landlord, who receives rent from a tenant with full knowledge of a breach of covenant or contract by the tenant, involving a liability to forfeiture, makes an irrevocable election to treat the lease or contract as subsisting, and can no longer avoid it on account of the breach, of which he had knowledge. The presence in the lease or contract of a provision requiring a waiver to be expressed in writing does not render the principle inapplicable, although there has been no express waiver in writing. *R. v. Paulson* (1921, 90 L.J.P.C. 1).

Covenant not to Underlet or Permit any other Person to use or Occupy any Part of the Premises.

Where the tenant of a farm covenants not to underlet or permit any other person to use or occupy any part of the demised premises without the written consent of the landlord, the sale or letting by the tenant (without such consent) in the last year of his tenancy of the grass keep, i.e. growing herbage, of his pasture lands for a definite period, is a breach of the covenant, although such sale or letting is in accordance with the usual practice of an outgoing tenant in that part of the country.

Legal Notes.

Seemble, that agistment, i.e. the taking in by the tenant of the sheep or cattle of another to be depastured on the farm at so much per head per week, would not be a breach of the covenant. *Richard v. Davies* (1921, 1 Ch. 90).

Increase of Rent since March 25th 1920.

Plaintiff claimed certain premises in the City for non-payment of the agreed rent. On 4th August 1914 the premises were let at £60 per annum, landlord paying rates and taxes. The rent was subsequently increased, and the rent current up to 15th March 1920 was £75. By an agreement of tenancy dated 12th March 1920, the premises were let to the defendants from 25th March 1920 for the term of three years thence next ensuing, and afterwards as a yearly tenancy unless six calendar months' previous notice in writing shall be given, at the yearly rent of £230, payable by four equal quarterly payments on the four usual quarter days, the first of such payments to be made on June 24th next. The plaintiff was to pay rates and taxes. The defendants obtained the keys of the premises on March 25th, and actually went into possession on March 26th. The Increase of Rent and Mortgage Interest (Restrictions) Act 1920, Section 1, provides that "subject to the provisions of this Act, where the rent of any dwelling-house to which this Act applies has been, "since March 25th 1920, or is hereafter increased, then, if the increased rent "exceeds by more than the amount permitted under this Act the standard rent, the "amount of such excess shall, notwithstanding any agreement to the contrary, be "irrecoverable from the tenant." It was held that 26th March 1920 was the date at which it was agreed that the increased rent should begin to accrue. The rent had, therefore, been increased since March 25th 1920, and consequently the excess over the permitted increase on the standard rent was irrecoverable. *Raikes v. Ogle* (1921, W.N. 27).

Libel and Slander.

Trade Publication as to Credit.

In an action for libel, brought by a tradesman in Scotland against the proprietors of *Stubbs' Weekly Gazette*, a commercial newspaper containing information as to the credit of traders, the defendants admitted that in a certain issue of the *Gazette* the plaintiff's name had erroneously appeared in the weekly list of persons against whom decrees in absence had been obtained in the Small Debt Courts, the fact being that the claim had been settled out of Court. The list was headed by a note stating that in no case did the publication of the decree imply liability to pay on the part of anyone named, or anything more than the fact that the entry published appeared in the Court books. The plaintiff averred, by way of innuendo, that the entry falsely and calumniously represented that the plaintiff was given to, or had begun to, refuse or delay to make payment of his debts, and that he was not a person to whom credit should be given. It was held that in the circumstances of its publication the entry was capable of bearing the meaning attributed to it by the innuendo, and that the prefatory note afforded no defence to the action. *Stubbs v. Mazure* (1921, A.C. 66).

Ultra Vires.

Public Health and Washhouses.

A corporation has no power under the Baths and Washhouses Acts, 1846 to 1878, to carry out a scheme which involves the total or partial washing of clothes by the servants of the corporation, as distinguished from the provision of facilities for enabling others to wash their clothes. *Attorney-General v. Fulham Corporation* (1920, 37 T.L.R. 156).

Wills and Executors.

Sale by Executors without Leave of the Court.

A testatrix, by her will, appointed two executors, and, having bequeathed certain pecuniary legacies, devised and bequeathed the residue of her estate to one of her executors absolutely. One of the legacies being unpaid, the legatee brought a suit for the administration of the estate of the testatrix, and a decree for administration was made. The remaining legacies, and the debts and funeral and testamentary expenses of the testatrix, had already been paid. After the decree the executors, without obtaining the sanction of the Court, sold to the plaintiff by public auction certain

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leasehold portions of the estate. The conditions of sale stipulated that the sale was subject to the approval of the Court. The executors subsequently refuse to complete. The solicitor for the executors executed a memorandum of the agreement for sale of the leaseholds, in the body of which the names of the vendors appeared, and he wrote at the end of the memorandum the words, "I confirm above sale on behalf of the vendors," with the intention that the document, which was signed by the plaintiff, should be signed by the auctioneer on behalf of the vendors, but the memorandum was never signed by the auctioneer or by either of the vendors. In an action for specific performance brought by the plaintiff, it was held that the sanction of the judge to the sale given at the trial was sufficient, and that the plaintiff was entitled to a decree for specific performance, and that the memorandum of agreement signed by the solicitor constituted a sufficient compliance with Section 4 of the Statute of Frauds. *Halley v. O'Brien* (1920, 1 I.R. 330).

Termination of War.

A testator directed the interest on a legacy to his son, who was reported missing, to be accumulated "until six months after the declaration of peace terminating the present war, or the expiration of twenty-one years from my death, whichever shall be the shorter period." It was held that the termination of the war meant the termination of the war with Germany and not the war generally, and that the trust for accumulation had come to an end. *Re Rawson* (1921, 65 S.J. 204).

Donatio Mortis Causa.

A domiciled Russian subject, whilst resident in England, delivered money and jewellery to a third person to be given to the plaintiff in case of his death. On the next day he went into a nursing home, and shortly afterwards died. It was held that there was a good *donatio mortis causa*, and that the case must be determined by the law of England, notwithstanding the foreign domicile of the donor. *Re Korvine Trust* (1921, 65 S.J. 205).

Workmen's Compensation.

Breach of Statutory Prohibition.

When a workman is doing an act which is expressly forbidden, either by the terms of his employment or by a statutory prohibition, and he meets with an injury by accident, the accident cannot "arise out of" his employment within the Workmen's Compensation Act, 1906, Section 1, and he is, therefore, not entitled to compensation. *Moore v. Donnelly* (1921, 65 S.J. 219).

Inability to Get Work.

An application by an injured workman for a review of weekly payments may be entertained, notwithstanding that no change has occurred in the man's physical condition, if there is evidence that the difficulty of finding suitable work owing to the accident is greater than had been supposed at the time of the original award. *M'Alenden v. Nimmo* (1921, A.C. 39).

Breaches of Statutory Prohibition.

Two workmen were fatally injured, the one by the delayed explosion of a shot which had apparently missed fire, and to which he went back too soon, and the other by attempting to pass along a level which had been fenced off, as it was known that gas was present there. It was held that in neither case were the employers liable to pay compensation to the dependants of the deceased men, as at the time of the accident each workman was going out of his sphere of employment by the breach of the regulation, and had himself added a risk that was not reasonably incidental to his employment. *Fife Coal Co. v. Colville & Gordon* (1921, 65 S.J. 239).

Students' Society Notes.

The Chartered Accountant Students Society of London.

The special course of lectures on Economics, Actuarial Science and Banking and Foreign Exchange, commenced on 25th January. The course consists of nine weekly lectures as follows:—

"Economics," by Mr. Hugh Dalton, M.A., Sir Ernest Cassel Reader in Commerce in the University of London, Tuesdays, January 25th, February 1st and 8th, at 6 p.m.

"Actuarial Science," by Mr. H. T. Curwen, B.Sc., lecturer on Mathematics in the University of London, Mondays, February 14th, 21st, and 28th, at 6 p.m.

"Banking and Foreign Exchange," by Mr. T. E. Gregory, B.Sc. (Econ.), Sir Ernest Cassel Reader in Commerce in the University of London, Mondays, March 7th, 14th, and 21st, at 6 p.m.

The fees for the full course of nine lectures:—Society members, £1 1s.; members' clerks (non-articled), £2 2s.

A detailed syllabus will be forwarded on application to the Secretary.

The following members were successful in obtaining places of merit at the recent Institute Intermediate Examination, and the Society's prizes were awarded as follows:—P. F. Carpenter, 1st, £2 2s.; L. W. Wheal, 2nd, £1 1s.; I. Shapero, 3rd.

Sir William Plender, G.B.E., F.C.A. (President of the Society), again offered prizes to students of the Society's Coaching Classes, who obtained highest places in order of merit at these examinations, and his prize of £5 5s. has been awarded to Mr. L. W. Wheal for his success at the Intermediate Examination.

Coaching Classes for the May 1921 Examinations are now in progress, and students for these examinations should enrol forthwith. Full particulars of these Classes can be obtained from the Secretary.

The Free and Advanced Courses in Bookkeeping, Accounts, Auditing, and in Law, will re-commence this month at the following times:—Elementary Accounts Class, 5 p.m. Thursday, 3rd February; Advanced Accounts Class, 6 p.m., Thursday, 3rd February; Elementary Law Class, 5.30 p.m., Friday, 4th February; Advanced Law Class, 6.30 p.m., Friday, 4th February. Each course consists of ten weekly lectures held in the Examination Hall of the Institute, Moorgate Place, E.C. The Elementary Classes are free to all members of the Society, and a fee of one guinea is payable in respect of each Advanced Course. Examinations will be held at the end of each course, and prizes awarded. Application should be made to the Secretary for full particulars, &c.

At the Examinations held in connection with the recent Free and Advanced Courses, the following students passed the examinations with Honours, and prizes were awarded as stated:—

Elementary Bookkeeping and Accounts.—1, E. Farmer, 1st prize, £1 1s.; 2, L. Alden, 2nd prize, 10s. 6d.; 3, B. S. Davis, J. F. B. Neill, and H. S. Snelling; 6, H. T. Meredith; 7, C. A. Hill; 8, R. D. Hammond and S. M. Blum; 10, A. M. Pearson; 11, V. G. Rowe; 12, R. Moyse and K. R. Gray; 14, H. W. Davidson; 15, T. G. Laffen, F. W. Watkins, and W. W. Bigg; 18, H. C. Parsons. 76 per cent. passed.

Advanced Bookkeeping and Accounts.—1, J. W. Park, 1st prize, £1 1s.; 2, E. W. J. Belcher, 2nd prize, 10s. 6d. (awarded by de Paula, Turner, Lake & Co.); 3, H. E. Boak. 61 per cent. passed.

Elementary Law.—1, A. E. Colwell, 1st prize, £1 1s. (A second prize was awarded to R. P. Matthews.) 36 per cent. passed.

Advanced Law.—1, A. E. Colwell, 1st prize, £1 1s.; 2, J. W. Park, 2nd prize, 10s. 6d.; 3, B. S. Davis. 71 per cent. passed.

Sheffield Chartered Accountants Students' Society.

The last evening of the Autumn Session 1920 was held at the King's Head Hotel, on 15th December. This was perhaps the most enjoyable evening of the Session. We were favoured on this occasion with the presence of a very well-known Chartered Accountant, who happened to be in Sheffield, and who kindly invited all members to tea with him prior to the meeting.

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This took the form of a debate, the Chairman dividing the members into two parties, and each student was called on to speak. Although this gave some few of our members an anxious time until their turn came, from an educational standpoint it was all that could be desired. We hope, after this preliminary effort, that our students will realise that the bogey of nervousness at speaking in public can easily be overcome by a modicum of self-confidence.

Our next duty is to condemn the attitude of so many of our members on Wednesday, January 12th, when the Official Receiver for Sheffield, Mr. L. G. Clegg, opened our Spring Session by a most interesting and instructive lecture on "Reputed Ownership." We refer, of course, to the deplorable attendance on that date, and we do wish that students would confine their Christmas revels to a more restricted period, or at any rate not let them interfere with professional matters. The few members who were present will not readily forget the striking illustrations of the lecturer, which illuminated his exposition of Section 38 of the Bankruptcy Act, 1914.

We congratulate our members who have passed the recent examinations of the Institute, our only regret being that on this occasion we cannot claim an Honours man.

We call the attention of all our members to the change of address of Mr. W. J. Scott, our Honorary Treasurer, who is now c/o Messrs. T. G. Shuttleworth & Sons, Royal Insurance Buildings, Church Street, Sheffield.

The following is a copy of our Syllabus for the Spring Session, 1921:—

January 12th.—"Reputed Ownership," by Mr. L. G. Clegg (Official Receiver for Sheffield).

January 27th.—"Labour is not at present fit to Govern." Debate with Nottingham Chartered Accountants Students' Society.

February 2nd.—"Welfare Work in Commercial Firms," by Mr. S. Osborn.

February 9th.—Ten Minute Papers.

February 23rd.—"The Duties of an Executor," by Mr. J. C. Auty (Solicitor).

March 2nd.—Subject to be announced later. Lecturer, Mr. C. S. Dickie, A.C.A.

March 9th.—"Some Notes on the Voluntary Liquidation of Insolvent Companies," by Mr. H. Edgar Jenkinson, F.C.A.

March 16th.—"Banking and the Public," by Mr. L. A. Fogg (Union Bank of Manchester, Ltd.).

March 23rd.—"Some Problems on Costing," by Mr. G. S. Hattersley, A.S.A.A.

We conclude by again urging all our members to attend Students Society meetings at least as regularly as social functions. The reputation of accountants does not depend so much on their ability to criticise "figures" at dances, as upon their ability to deal with that other class of figures more generally associated with our profession.

Books of the Month.

THE ELEMENTS OF STATISTICS. By ARTHUR L. BOWLEY, Sc.D., F.S.S. $8\frac{1}{2} \times 5\frac{1}{2}$, xi+459 pp. Fourth edition. 24s. n. Post free 25s.

THE PRACTICE AND LAW OF BANKING. By H. P. SHELDON. $9 \times 5\frac{1}{2}$, xii+482 pp. 12s. 6d. n. Post free 13s. 3d.

COMPANY PRINCIPLES AND PRECEDENTS. By FRANCIS ERNEST BRADLEY, M.A., M.Com., F.R.S.E. $9 \times 5\frac{1}{2}$, xxx+432 pp. 17s. 6d. n. Post free 18s. 6d. [Deals with the principles and practice relating to the formation, management, and winding-up of companies.]

QUESTIONS AND ANSWERS IN BOOKKEEPING AND ACCOUNTING. By Major F. F. SHARLES, F.S.A.A. $8\frac{1}{2} \times 5\frac{1}{2}$, viii+358 pp. 10s. 6d. n. Post free 11s. [A book which will be specially useful to candidates for examinations in book-keeping and accountancy. The author aims at helping the student to cultivate the art of expression in answering examination questions.]

Union of Chartered Accountant Student Societies.

A meeting of the Joint Committee was held at the Library of the Liverpool Chartered Accountants Students' Society on Friday, 17th December 1920.

There were present : Mr. W. C. Northcott, F.C.A., Chairman, Mr. W. S. James Moore (Birmingham), Mr. J. E. Waring, A.C.A. (Leeds), Mr. R. V. Rodwell, A.C.A. (Leicester), Mr. F. Cook, Junr., A.C.A. (Liverpool), Mr. F. W. Poulson (Liverpool), Mr. J. Myers, F.C.A. (London), Mr. B. O'D. Manning, A.C.A. (London), Mr. L. Taylor, A.C.A. (Manchester), Mr. J. G. Swan, F.C.A. (Northern), Mr. S. Blythen, F.C.A. (Nottingham), Mr. C. Parker (Nottingham), Mr. V. G. P. Brough (Sheffield), Mr. S. E. Warburton, M.C., M.M., A.C.A. (Sheffield).

In attendance, Mr. R. E. Dawe, A.C.A., Editor of "Joint Transactions," and Mr. F. J. B. Gardner, A.C.A., Honorary Secretary.

At the commencement of the meeting Mr. W. J. McGregor, President of the Liverpool Students' Society, extended a hearty welcome to the delegates.

Amongst other business it was resolved, on the report of the Editor, Mr. R. E. Dawe, A.C.A., that the publication of the "Joint Transactions" be resumed, and, accordingly, this volume will be issued this year.

A long discussion ensued on the question of Joint Debates. These were strongly advocated by many of the representatives present, and it was decided that Joint Debates between the Societies should be encouraged.

It was also decided to hold an Essay Competition during the year, the necessary arrangements as to subject and examiner to be made by the Chairman and Secretary.

It was resolved that the levy for the current year be 4d. per member.

The question of the grants made by the Council of the Institute to the Students' Societies was discussed at length, many of the representatives of the small Societies stating that they had considerable difficulty in obtaining satisfactory grants. It was recommended that where there was a senior Society in the district, it should be requested to assist the Students' Society by representation to the Council.

The following officers were elected :—

Mr. W. C. Northcott, F.C.A., who has been a London representative on the Union for very many years, stated that he desired to retire from the position of Chairman, and, after a very hearty vote of thanks had been passed to him for his invaluable services to the Union, it was resolved and carried that Mr. Stanley Blythen, O.B.E., F.C.A. (Nottingham), be appointed Chairman for the ensuing year.

Mr. A. F. Dodd, F.C.A., was re-elected Honorary Treasurer, and Mr. H. E. Barham as Honorary Auditor.

Mr. B. O'D. Manning, A.C.A. (c/o Messrs. Deloitte, Plender, Griffiths & Co., 5 London Wall Buildings, E.C.), was appointed Lecture Organising Secretary for the ensuing year. A hearty vote of thanks was passed to Messrs. Blythen and Parker, of Nottingham, for the duties performed by them during the past year as Lecture Organising Secretaries.

The Chairman read a letter which he had received from Mr. Redfern, F.C.A., stating that he must place his resignation before the Union. It was moved by Mr. Northcott, and seconded by Mr. Blythen, that Mr. Redfern's resignation be accepted with great regret and that a very hearty vote of thanks be accorded to him for the very valuable services that he had rendered to the Union for the past 13 years.

Mr. F. J. B. Gardner, A.C.A., of 65 New Broad Street, London, E.C. 2, was appointed Honorary Secretary for the ensuing year.

It was decided that the next meeting of the Union should be held in London.

A vote of thanks to the Chairman for presiding at the meeting, and to the Liverpool Society for entertaining the delegates, was carried unanimously.

The meeting then terminated.

Monthly Calendar.

February 1st, Tuesday.—LONDON CHARTERED ACCOUNTANT STUDENTS SOCIETY.—Lecture, "Economics," by Mr. Hugh Dalton, M.A., 6 p.m., at the Institute of Chartered Accountants.

SCHOOL OF ACCOUNTANCY STUDENTS' ASSOCIATION (SHEFFIELD BRANCH).—Lecture, "Negotiable Instruments," by Mr. C. A. Elliott, 7.30 p.m., at Norris Deakin Buildings, King Street, Sheffield.

SCHOOL OF ACCOUNTANCY STUDENTS' ASSOCIATION (LONDON BRANCH).—Lecture, "Alternative Taxation to Excess Profits Duty," by Mr. W. L. Gardener.

February 2nd, Wednesday.—GLASGOW CHARTERED ACCOUNTANTS STUDENTS' SOCIETY.—Lecture, "Profit-Sharing," by Mr. William Annan, C.A., 7.30 p.m., at 218 St. Vincent Street, Glasgow.

INDUSTRIAL LEAGUE AND COUNCIL.—Lecture, "Some Factors in Present-Day Industry," by Professor A. W. Kirkaldy, M.A., 7.30 p.m., at Caxton Hall, Westminster.

SHEFFIELD CHARTERED ACCOUNTANTS STUDENTS' SOCIETY.—Lecture, "Welfare Work in Commercial Firms," by Mr. S. Osborn.

February 3rd, Thursday.—LEEDS AND DISTRICT CHARTERED ACCOUNTANTS STUDENTS' ASSOCIATION.—Lecture, "What Subjects should a Young Chartered Accountant have Knowledge of?" by Mr. P. McCandlish Wilson, M.A., A.C.A., 6.30 p.m., at 7 Bond Place, Leeds.

February 4th, Friday.—SOUTH OF ENGLAND DISTRICT SOCIETY OF INCORPORATED ACCOUNTANTS.—Lecture, "Economics," by Mr. A. Picken.

February 7th, Monday.—BIRMINGHAM AND MIDLAND SOCIETY OF INCORPORATED ACCOUNTANTS AND STUDENTS' SOCIETY.—Lecture, "Contracts and Agency," by Mr. F. S. Saville, LL.B., at The Library, County Chambers, Corporation Street, Birmingham.

CORPORATION OF INSURANCE BROKERS, METROPOLITAN AND HOME COUNTIES DISTRICT COMMITTEE.—Lecture, "Motor Insurance," by Mr. F. Thoresby.

MANCHESTER CHARTERED ACCOUNTANTS STUDENTS' SOCIETY.—Lecture, "Money and Its Meaning," by Mr. A. Mitchell, M.A., 6 p.m., at 60 Spring Gardens, Manchester.

WEST OF ENGLAND DISTRICT SOCIETY OF INCORPORATED ACCOUNTANTS.—Lecture, "Income Tax and Excess Profits Duty," 5.30 p.m., at Royal Hotel, College Green, Bristol.

YORKSHIRE DISTRICT SOCIETY OF INCORPORATED ACCOUNTANTS.—Lecture, "The Functions of Banking in Regard to Present-day Commercial Requirements," by Mr. H. Watson, at Leeds.

February 8th, Tuesday.—LONDON CHARTERED ACCOUNTANT STUDENTS SOCIETY.—Lecture, "Economics," by Mr. Hugh Dalton, M.A., 6 p.m., at the Institute of Chartered Accountants.

NOTTINGHAM CHARTERED ACCOUNTANTS STUDENTS' SOCIETY.—Lecture, "Some Thoughts on Stocktaking Problems," by Mr. E. W. Newman, A.C.A.

SCHOOL OF ACCOUNTANCY STUDENTS' ASSOCIATION (LONDON BRANCH).—Debate on "Alternative Taxation to Excess Profits Duty" (Mr. Gardener will be in attendance.)

February 9th, Wednesday.—GLASGOW CHARTERED ACCOUNTANTS' STUDENTS' SOCIETY.—Lecture, "Cautionary Obligations," by Mr. H. C. Macmillan, K.C., 7.30 p.m., at 218 St. Vincent Street, Glasgow.

INDUSTRIAL LEAGUE AND COUNCIL.—Lecture, "Payment by Results," by Mr. E. J. P. Benn, C.B.E., 7.30 p.m., at Caxton Hall, Westminster.

SHEFFIELD CHARTERED ACCOUNTANTS STUDENTS' SOCIETY.—Ten-Minute Papers.

February 10th, Thursday.—INDUSTRIAL LEAGUE AND COUNCIL (DEPTFORD BRANCH).—Lecture, "Payment by Results," by Mr. Frank Elliott.

Monthly Calendar.

February 11th, Friday.—MANCHESTER DISTRICT SOCIETY OF INCORPORATED ACCOUNTANTS.—Lecture, "Deeds of Arrangement," by Mr. W. Eaves, F.S.A.A., 7 p.m., at St. Mary's Parsonage, Deansgate, Manchester.

February 12th, Saturday.—YORKSHIRE STUDENTS' SOCIETY OF INSTITUTE OF MUNICIPAL TREASURERS AND ACCOUNTANTS.—Discussion on subjects to be suggested by members, 5.30 p.m., at Halifax.

February 14th, Monday.—BIRMINGHAM AND MIDLAND SOCIETY OF INCORPORATED ACCOUNTANTS AND STUDENTS' SOCIETY.—Lecture, "Economics," by Mr. A. P. Bardell, A.S.A.A., at The Library, County Chambers, Corporation Street, Birmingham.

LONDON CHARTERED ACCOUNTANT STUDENTS SOCIETY.—Lecture, "Actuarial Science," by Mr. H. T. Curwen, B.Sc., 6 p.m., at the Institute of Chartered Accountants.

WEST OF ENGLAND DISTRICT SOCIETY OF INCORPORATED ACCOUNTANTS.—Lecture, "Elements of Statistics: Graphs and Their Uses," by Mr. Hubert Phillips, B.A., 5.30 p.m., at Royal Hotel, College Green, Bristol.

February 15th, Tuesday.—SCHOOL OF ACCOUNTANCY STUDENTS' ASSOCIATION (LONDON BRANCH).—Lecture, "Stores Control," by Mr. F. Morrison, B.Sc. (Vice-President of the Branch.)

February 16th, Wednesday.—INDUSTRIAL LEAGUE AND COUNCIL.—Lecture, "Control of Industry," by Mr. H. H. Elvin, 7.30 p.m., at Caxton Hall, Westminster.

February 17th, Thursday.—LEEDS AND DISTRICT CHARTERED ACCOUNTANTS STUDENTS' ASSOCIATION.—Lecture, "The Detection of Fraud in Accounts," by Mr. F. R. M. de Paula, F.C.A., 6.30 p.m., at 7 Bond Place, Leeds.

February 18th, Friday.—SCHOOL OF ACCOUNTANCY STUDENTS ASSOCIATION (SHEFFIELD BRANCH).—Lecture, by Mr. A. W. Forsdike.

February 21st Monday.—BIRMINGHAM AND MIDLAND SOCIETY OF INCORPORATED ACCOUNTANTS AND STUDENTS' SOCIETY.—Lecture, "Executorship Accounts," by Mr. A. C. Ridgway, F.C.A., at The Library, County Chambers, Corporation Street, Birmingham.

LONDON CHARTERED ACCOUNTANT STUDENTS SOCIETY.—Lecture, "Actuarial Science," by Mr. H. T. Curwen, B.Sc., 6 p.m., at the Institute of Chartered Accountants.

MANCHESTER CHARTERED ACCOUNTANTS STUDENTS' SOCIETY.—Lecture, "Economics as a Social Science," by Mr. A. Redford, M.A., 6 p.m., at 60 Spring Gardens, Manchester.

February 22nd, Tuesday.—SCHOOL OF ACCOUNTANCY STUDENTS' ASSOCIATION (LONDON BRANCH).—Debate on "Stores Accounts." (Mr. Morrison will be in attendance.)

YORKSHIRE DISTRICT SOCIETY OF INCORPORATED ACCOUNTANTS.—Lecture, "Some Practical Uses of Statistics," by Mr. Charles Townsend, A.S.A.A., at Leeds.

February 23rd, Wednesday.—INDUSTRIAL LEAGUE AND COUNCIL.—Lecture, "Health in Industry," by Dr. E. Halford Ross, 7.30 p.m., at Caxton Hall, Westminster.

SHEFFIELD CHARTERED ACCOUNTANTS STUDENTS' SOCIETY.—Lecture, "The Duties of an Executor," by Mr. J. C. Auty (Solicitor).

February 28th, Monday.—BIRMINGHAM AND MIDLAND SOCIETY OF INCORPORATED ACCOUNTANTS AND STUDENTS' SOCIETY.—Lecture, "Rights and Duties of Executors and Trustees," by Mr. F. S. Saville, LL.B., at The Library, County Chambers, Corporation Street, Birmingham.

LONDON CHARTERED ACCOUNTANT STUDENTS SOCIETY.—Lecture, "Actuarial Science," by Mr. H. T. Curwen, B.Sc., 6 p.m., at the Institute of Chartered Accountants.

WEST OF ENGLAND DISTRICT SOCIETY OF INCORPORATED ACCOUNTANTS.—Lecture, "The Elements of Statistics—Index Numbers," by Mr. Hubert Phillips, B.A., 5.30 p.m., at Royal Hotel, College Green, Bristol.

The Best System of Internal Check.

By Victor J. Ling.

This essay was awarded a prize in the November competition.

A system of internal check can be viewed from two main standpoints. In the first place, check systems are in operation to protect an undertaking from the fraudulent intentions of its subordinates, and supervised by a responsible officer or officers appointed by the firm. It may, however, be carried out by a separate department under the supervision of an accountant, specially appointed, and in this instance the amount of internal checking accomplished, and for which the department makes itself responsible, will affect, to a large extent, the detail work to be performed by any professional auditor appointed to safeguard the external interests of the concern. Where the internal check is in the hands of a separate department it is obvious that the checks employed will affect all officials, and will be linked up with the official audit taking place quarterly or half-yearly. From an accountancy point of view such a system is nearing the ideal.

The scope, however, of a system of internal check is often limited, and largely depends upon the size of the staff employed. It is much easier to prepare a system where there is a fairly big staff or separate department, as it is then comparatively easy to distribute responsibility. On the other hand, reasonable caution in setting out duties in a small office will make it difficult for members of the staff to convert the property of the firm to their own use. It is proposed to steer a middle course in this essay, and define a system which will be adaptable to most offices, and to divide the transactions into two main divisions, "Incomings and Outgoings," corresponding to the divisions met with in all accountancy transactions, viz. Debits and Credits, and to make the system prescribed, as far as possible, automatic, and not requiring the employment of a staff of audit clerks.

In order to maintain a constant check on the numerous transactions recorded in a business, it is absolutely necessary that a good system of records is installed, and in attempting such a task, the accounting system in operation must be carefully studied, and where difficulties are experienced, adaptation will be necessary.

It is a good plan to obtain a list of all the books in use, and to construct a diagram showing how the transactions find their way into the various books. Not only is this useful for checking purposes, but it enables a secretary or accountant to explain the bookkeeping system at a moment's notice. Next, the duty of each clerk must be carefully defined, and where duties are of a routine nature, they should be recorded by means of a tick placed against the respective operations in the duties register. A glance at this book will ascertain the state of the work, and also ensure an equal distribution. Books of account to be of value must be on a daily basis. Arrears of work often provide loopholes for the insertion of fictitious entries.

Incoming Cash. Cash Books and Receipt Books.

The record of incoming cash will be considered first. All remittances should be sent to the chief office of the firm, and not paid to representatives. Letters are usually opened by a responsible official, who should have all cheques received through the post recorded. An elaborate record is not necessary, name and amount need only be entered. The cheques will be handed to the cashier, who will sign or initial for them. All letters, including those handed in, should be addressed to the firm, and subordinates not be allowed to open them. The next point to be dealt with is the form of receipt. Receipt books should be on the carbon counterfoil system, and the duplicate in the handwriting of the person issuing the receipt retained. The reason for this is that the facsimile copy of the receipt is given out, and it is difficult to manipulate the figures, whereas where the counterfoil is separate, it is quite easy to make a different entry from the amount on the receipt. Double sided carbon should be used, as the impression on the back of the duplicate will prove a pitfall for a thoughtless cheat. In some instances it will be possible to construct the receipt book so that a separate "Receipts Cash Book" will not be necessary, the postings to the Ledger being made from the Receipt Book direct. This is

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a great advantage, as duplication of work often hides mistakes, or gives an excuse for them, and in this way assists a person with fraudulent intent. All cash received should be banked daily, and the amount agreed with the Receipt Book. This comparison ensures that all amounts received are paid into the firm's banking account, and with very slight supervision mistakes and fraud may be prevented. If it is found impossible to have all cash remitted direct, each person responsible for its collection must be provided with a counterfoil Receipt Book on the lines of the one previously described (except that it could not be in the Cash Book form and would be of pocket size). Weekly returns would be necessary, specifying amounts collected, and these should be compared with the counterfoils of the Receipt Books at frequent intervals. Where firms remitting cash provide a special form of receipt, or send cheques with receipt form attached, the receipt should be made out by the cashier as usual, and either left in the book or placed on a special file provided for the purpose. The firm's statement forms should contain a note "No receipt valid unless on company's own form."

Sales Ledgers.

The person receiving cash should not be allowed to post it to the debtor's accounts. If this rule is strictly adhered to, it will be easy for any discrepancy between the amount received and the amount owing to be brought to the notice of a responsible official and the reason investigated.

Statements should be sent out for all accounts in the Ledger at frequent intervals. It will be found convenient to record them in a book ruled on the columnar system (for monthly accounts), twelve columns will be a convenient number, and when balances are extracted (say quarterly), these amounts can be compared with the Ledger Balances Book, thus ensuring that the Ledger balances outstanding agree with the accounts rendered. When longer credit than one month is given, it will simplify matters if the accounts are grouped into "Monthly," "Quarterly," "Half-yearly," &c., instead of making them up for different periods. Where this is done, statements are prepared for the whole of the accounts in the Ledger twice or four times each year. In order to classify the accounts, loose-leaf accounting is a great boon, but where loose-leaf ledgers are installed, care must be taken to insist on the following rules, viz.:

- (1) Ledger sheets should be numbered by the makers consecutively (this is generally done in some inconspicuous place).
- (2) The ordering of the sheets should be entrusted to a responsible official, who should control their issue and record them on a sheet register provided for the purpose.
- (3) Where the Ledger has a lock, the key should be in the hands of someone in authority.

Credits.

Credits for returned goods should always be initialled by some person in authority before they are passed through the Ledger. The Credit Book can assist anyone with fraudulent intentions to manipulate the accounts, and a very strict watch should be kept on all allowances. These are not many, generally speaking, and can be supervised very easily.

All Bad Debts written off should be scheduled, and certified before the accounts actually disappear.

Where it is customary to have a packages column in the Cash Book, care should be exercised in order to avoid anything except returned packages passing through it. It is a good practice to have a special credit book for returned packages, and to enter the Cash Book folio against each entry as it is allowed. If credit notes are not issued for returned cases, an occasional test of all the allowances on any one day will prove effective in the supervision of such allowances.

Day Books, &c.

A strict watch is necessary in respect of the record of goods leaving the factory, otherwise it will be possible for leakages to occur, and unscrupulous persons may despatch goods to people who will never be called upon to pay for them. Here again it is necessary to have a good system of recording all orders received. If the rule that all correspondence is opened by a responsible official is maintained it will

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be certain that all orders received will be under his personal supervision. The essence of a good check in respect of the orders received is that the Day Books shall be linked up with the Order Sheets, and a comparison with the stockkeeper's records should also be possible. Where goods are ordered by post, the letter or postcard will form the basis of the entry on the Order Sheet, and it will be found convenient to enter all orders received in this way on loose Order Sheets, which can be filed in alphabetical order. It is recommended that the Order Sheet reference be entered on the communication received, and that a current file be kept for all orders received. At the end of each month (or oftener if required), the completed Order Sheets can be transferred to a permanent binding case, and filed alphabetically; all incomplete orders remain in the current file. Travellers will be supplied with loose sheets, on which they will write up orders received, and as they come into the counting-house they will take their place in the current file. When goods are despatched, the Day Book folio will be entered on the Order Sheet against the goods supplied, and the Order Sheet reference will appear in the Day Book. If all transactions are treated in this manner the supervision of the despatch of goods will cause little difficulty. It will be noticed also that the system provides that old orders cannot easily be overlooked. A record of all packages despatched should be kept by the despatch clerk; the records will then be complete, and if necessary a check system can be installed, embracing all the operations, or an occasional test can be made by a principal. All invoices sent to customs will require to be recorded, and it will be quite easy to have them entered in a book on the columnar system corresponding with the Ledger divisions, which are usually geographical, the totals of this book can then be agreed with the total debit postings, thus proving that all goods despatched have been charged. If the total of this book is extracted daily, and submitted to the sales manager, it provides him with material from which he can ascertain the work accomplished in his department, and can thereby detect any slackness in the despatching of goods. It is very important that where Ledger postings are not completed daily from the Day Books, but are posted from Sales Journals prepared from the Day Books, that the weekly or monthly totals should both agree, and a periodical check should be instituted in this respect.

Goods Purchased and Received.

For the adequate checking of goods inwards, a sound system of ordering is essential, and the authority to sign orders should be in the hands of the principal or departmental manager. No goods ought to be received unless officially ordered, and where cases are traced of goods being supplied without orders, the offending tradesmen should be notified that the procedure is irregular. The purpose for which the goods are required will be entered on the counterfoil of the Order Book, which will answer its purpose best if it is designed on the carbon system. The purpose for which the goods are required need not appear on the duplicate forwarded to the supplier. Upon the receipt of goods, a record will be made in the Receiving Book by the receiving clerk, and the order consulted to verify that they are supplied correctly. In some instances it will be found adequate to enter the particulars of orders given in a book specially ruled for the purpose, and to post the deliveries against these items, but where numerous transactions are involved, the Order Book is better on the triplicate system, and a copy of each order given supplied to the receiving department. These copies will be filed in numerical order. Where prices are entered on the counterfoil of the order, which is sent to the supplier, and it is considered unwise that a receiving clerk should have this knowledge, it is a simple matter to tear out the second counterfoil before prices are added, or to have it perforated in such a way that the priced portion can be torn off. As invoices are received, the Receiving Book should be consulted to verify the quantities, a consecutive number given to each invoice, the quantities and particulars received marked on the counterfoil of the Order Book, checked as to price and calculations, the amount chargeable added, and then placed on an invoice file. Where goods or materials are not chargeable to any particular job, they will be treated as stores, and provided a good system of storekeeping is in operation, correct records as to their disposal will be readily forthcoming. There should be, as far as possible, a central department for the receipt of all goods, whether bought in a finished state or not, and distribution controlled from this department. All invoices will require to be certified by a responsible official, each month, before payment is made. Tradesmen's statements should be handed to the cashier, who should verify them with the Creditors' Ledger, and certify them before a cheque is drawn. Where there is only one Ledger clerk,

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and statements are prepared by him, it should not be a difficult matter for the principal to compare them with the Ledger before signing the cheques. Even if this is not done, it is quite a simple matter to compare the statements with the balances taken out at set periods.

All empty cases, packages, &c., paid for, or struck off invoices, will require to be entered in a book provided for the purpose, and the book marked with the date of their return. The reason for this precaution will be seen, as if they are struck off the account, and not returned, the firms concerned will be claiming payment for them. They are easily converted to the use of unauthorised persons, and losses may easily occur in this way. Where packages are paid for, it should be mentioned in the Record Book, and credit notes obtained as speedily as possible.

General Payments, &c.

A register of all rents payable, and payments of a periodical nature, e.g. interest, insurance, acknowledgments, &c., will be required, and when cheques are drawn in respect of these payments, the book will form the authority for the payment. Any alterations or new arrangements should be recorded and initialled by the principal or departmental chief.

A register of the salaried staff will be required, and where salaries are paid monthly or quarterly, appropriate columns provided to record the payments. In some instances a cheque will be drawn to cover the whole amount, whilst in others separate cheques will be required. Any alterations in amounts will require the authority of the chief official, or a minute of the directors.

Accounts for expenses for travellers are best dealt with on the Imprest System, an amount advanced to each representative to cover a month's expenses, and details submitted weekly. A cheque can then be drawn each month for the amount spent. Comparisons can be made, and an explanation asked for where amounts are excessive.

The Petty Cash Account can also be dealt with on the Imprest System, the Petty Cash Book being submitted each month to the cashier when a cheque is required. Vouchers should be obtained for all payments made. All persons in charge of cash ought to provide an adequate guarantee, which can easily be negotiated through an insurance office.

Wages.

This important part of internal check has been left until last, but it is really the most important. All wages should be checked by a clerk who has nothing whatever to do with the making up or paying, and the following is a set of rules applicable to this branch of internal check.

- (1) A reliable system of timekeeping is absolutely necessary, and in the absence of an automatic time recorder any mistake in the time records discovered accidentally should be thoroughly investigated. In the case where a foreman ascertains the time from the workman independently, the foreman's record should be carefully compared with the Time Book.
- (2) If the person checking is aware, through any cause whatever, that a workman is absent, he should make a point of ascertaining that no time has been recorded for this person. It may be suggested that such information rarely reaches the ears of clerks in the office, but an intelligent interest often presents such opportunities, and many frauds have been discovered in this way.
- (3) The Time Book should be carefully checked and compared with the pay sheet. Very great care is necessary in this operation, as this book forms the basis of payment for all time workers, and often the bonuses paid to pieceworkers are calculated on time. Failure to discover loss of time on the part of a workman often involves the firm in loss.
- (4) The next process is to ascertain the accuracy of the Wages Book. The Wages Register will form the basis for this operation. Each workman's full particulars should be recorded on a sheet or card, and any alteration in rate will require special authority. A record of piecework prices should be constructed in order that any payments for work can be verified. Where a special price is arranged, this should find a place in the book, and be duly authorised.

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- (5) The previous rules are the first steps to ensure accuracy as well as to prevent fraud, and now it may be permitted to show how fraud is sometimes committed in dealing with wages at a later stage.
- (a) By drawing an inflated amount more than necessary for current needs.
 - (b) By including men and women who are not actually employed in the factory.
 - (c) Including wages for workmen absent on account of various causes.
- (a) The first example should rarely occur, and only in very exceptional circumstances should an amount other than the actual amount required be permitted to be drawn. If such circumstances do arise, a strict account should be kept, and actual figures presented as soon as they are ready, any amount over to be rebanked.
- (b) The person responsible for the preparation of the figures should not pay over the money. Where the staff is too small to permit such an arrangement, the principal should be present to see the men paid. All amounts not claimed should be recorded, and signatures obtained when application is made for payment.

It should be distinctly understood by the staff that a good system of checking wages places no reflection on anyone, and should be welcomed because it must lead to a feeling of absolute independence and satisfaction that the responsibility is properly distributed.

Conclusion.

In conclusion, the writer would add that all Ledgers used in a business should be on the self-balancing system, and that the cash balance should be verified with the Bank Pass Book at frequent intervals. Where a private Cash Book is kept, the reconciliation statement can be set out at the close of each month, and in this manner the person authorised to sign and indorse cheques is kept in close touch with receipts and payments

The Liability of Auditors Generally.

By H. L. Mead.

This Essay was awarded the prize in the Intermediate Division of the December competition.

The question as to what liability an auditor is under in relation to the accounts he has audited is a very difficult one to determine. If he exercises reasonable care and skill, whether in performing the work himself, in delegating it to his clerks, or in accepting the representations of officials, he should not find himself subject to any liability.

The duties of an auditor of a joint-stock company are defined in the Companies Consolidation Act, 1908, and if he fails to carry out these duties in a proper manner, he may find himself liable for negligence or misfeasance.

Section 215 of the above-mentioned Act provides that an officer of a company is liable, in the event of a winding-up, to contribute to the company any loss occasioned by his misfeasance or breach of trust.

Now, the important question arises as to whether an auditor is an officer of a company or not, as it is only in his official capacity of officer that he can be held liable under Section 215 of the Companies Act, 1908. There are two well-known cases in which decisions on this point have been given. In the case of *The London General Bank* it was held that the auditor of a banking company registered under the Companies Act, 1879, is an officer of the company. The articles of this company frequently referred to the auditor as an officer of the company, and this greatly influenced the decision. The second case is that of *The Kingston Cotton Mill Co., Ltd.*, in which, despite the fact that the articles did not refer to the auditors as officers of the company, it was held that he was an officer.

Under Section 281 of the Companies Act, 1908, an auditor is liable to fine, imprisonment, or both for wilfully making in any report, Balance Sheet, or other document, a statement false in any material fact, knowing it to be false.

An auditor may also incur liability, though a rather remote possibility, under the Larceny Act, 1861, Section 81, and the Falsification of Accounts Act, 1875.

In the case of *The Leeds Estate Building and Investment Co. v. Shepherd*, it was held that an auditor is liable for damages, for negligence in the performance of his duties. Here Stirling, J., said: "It is not the duty of an auditor to merely ascertain the arithmetical accuracy of the Balance Sheet, but to see that it is a true and correct representation of the company's affairs."

His liability from another point of view was brought to light in *Re London General Bank*, when it was held—after the auditor had been determined to be an officer of the company—that he was guilty of a misfeasance in failing to report to the shareholders the true facts of the case, when the Balance Sheet was not properly drawn up. The auditor is appointed by the shareholders normally, and is their representative, and his duty is first and foremost to them. His report should be made to them. It is not sufficient that he gives them means of information, he must give them the fullest facts of the case, and if he neglects to do so, then he must suffer the consequences.

There has been much controversy as to an auditor's position in relation to stock-in-trade. As Lopes, J., remarked in his judgment in *Re The Kingston Cotton Mill Co., Ltd.*: "An auditor is not a detective. He is not bound to approach his work with suspicion or a foregone conclusion that something is wrong. He is a watch dog, not a bloodhound. He is entitled to rely on the representations of true and trusted servants of the company so long as he has taken reasonable care in his work. Auditors must not be made liable for not tracking out ingenious and carefully laid schemes of fraud, when there is nothing to arouse their suspicions." Nevertheless, as regards stock, he should use proper care, and test a number of the prices with invoices, and compare them with current market prices. The additions,

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of course, must be checked. If he simply accepts the stock list, and takes no steps whatever to verify it, then he may find himself liable for negligence, in the event of the stock figure proving false.

Another case, that of *The Irish Woollen Co., Ltd. v. Tyson and Others*, decided that an auditor is liable for any damage sustained by a company by reason of falsifications which might have been discovered by the exercise of reasonable care and skill in the performance of the audit. Again, in *The London Oil Storage Co., Ltd. v. Sear, Hasluck & Co.*, it was held that an auditor is liable for damage sustained by the company, by his not verifying the existence of the assets as shown by the Balance Sheet. In this instance, the Balance Sheet stated the Petty Cash in hand to be £700, a truly ridiculous figure, and one which should have excited the suspicions of any ordinary person. As a matter of fact, the actual balance was £30. The auditor's clerk did not count the balance of petty cash in hand, but merely compared the Petty Cash Book with the Balance Sheet. Here we see in operation the law dealing with the principal and agent. The principal being liable for the wrongful acts of his agent acting within the scope of his authority. The principal in this case being the auditor and the agent his clerk.

The person appointed as auditor to a private firm is in a different position to the auditor of a limited company. The latter has his duties defined by Act of Parliament, whereas the former has no such guide, therefore it behoves him on his appointment to have a definite agreement as to the exact work he is to carry out.

Among private firms and individuals there are many curious ideas prevailing as to the scope of an audit. Some people seem to think that an auditor should be at their beck and call day in and day out, and practically run their business for them, all for a nominal audit fee. They consider it all a part of the audit. In such circumstances, the auditor's duties—that is, the scope of the audit—should be clearly agreed upon at the outset.

A reference to some of the leading cases will serve to illustrate the above.

First, in *Wilde and Others v. Cape and Dalglish*, frauds were not discovered owing to the auditors omitting to examine the Bank Pass Book. The defence submitted that an audit of the cash transactions was not part of the original agreement, but this could not be substantiated, and a settlement was arrived at. The auditor was also found liable in the case of *Smith v. Sheard*. The defence in this instance was, that no agreement to perform an audit had ever been come to, and that an actual audit had not been performed, and as a result, defalcations had not been discovered. Here again there was nothing to substantiate the defence, although no certificate was placed on the Balance Sheet. The absence of such certificate, therefore, will not, of itself, be sufficient to free the auditor from liability.

The whole question, therefore, in this case, rests on the precise terms of the agreement, and unless the limitations of responsibility are very clearly defined between the parties, the auditor should regard himself as under as much responsibility as if he were conducting a complete audit.

Sufficient has been said to show that an auditor to a limited company should be honest and careful in his work and report fully to the shareholders, and in the case of a private firm he should, if only for his own protection, have his duties clearly defined before commencing work.

“According to the Best of my Information.”*

By R. G. White, A.C.A.

In the following witty paper Mr. White deals with a somewhat neglected branch of bookkeeping and gives some practical advice which, though probably not based on personal experience, may be of interest to the professional accountant.

I think that this paper calls for a few words by way of explanation—perhaps, I should say, by way of apology. It is the outcome of an attempt to meet two difficulties: the first being that in the two papers read before this one the students will have heard as much sound wisdom and learning as they can comfortably digest for one evening, and the second being the almost impossible task of finding a subject that has not already been flogged to death. At the meeting held here on the 28th ultimo, it was said that there are in existence books on every class of accounts. I have been looking through some accountancy catalogues on the bare chance of finding some method of accumulating money which has not been treated from an accountancy point of view, and the only business which occurs to me as having escaped attention is that of a “burglar.” As the title of this paper implies, I do not pretend to first hand acquaintance with the subject. I am merely going to make a few remarks, in the hope that they may serve to draw some information from those who have a practical knowledge of burglary and its accountancy.

It is to be regretted that burglars, as a body, are averse to the keeping of proper sets of accounts. Apart from the inconvenience caused to themselves by this omission, the matter has a wider aspect in view of the fact that they thereby escape their due share of taxation. It is difficult to meet such a position by means of legislation, but possibly something might be done by private influence. If every accountant would take aside those of his intimate friends who happen to be burglars, and would point out to them that evasion of income-tax is an unfairness to one's neighbour—amounting in effect to dishonesty—possibly this view, acting on the burglar's sense of probity and upright dealing, would have a beneficial effect.

The term “burglar” is an elastic one, and is frequently applied to persons who have no honourable claim to it. In this paper I am considering it in its strict sense, and I do not propose to deal with any of the ramifications of the profession, such as the three-card man, the confidence merchant, or that more recent branch known as the profiteer.

In the case of a firm employing a number of hands, the most suitable form of accounts would appear to be on very similar lines to those of any other contractor. The nearest comparison that can be found would be the accounts of a salvage concern, as in both these businesses a large part of the work is undertaken on the “No cure no pay” basis.

A separate account will be opened in a Job Ledger for each work undertaken. This account will be debited with the wages of the men employed

* One of three short papers read at a meeting of the South Wales and Monmouthshire Chartered Accountants Students' Society on 26th November 1920.

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thereon, and with those expenses which can be directly allocated thereto; and will be credited with the proceeds (if any). Indirect expenditure—that is to say, expenditure which is general and not on account of any particular job—will be collected in an Establishment Charges Account, and apportioned over the various jobs. I do not propose to deal with methods of allocation, &c., as these have been treated on many occasions, but I think that at this point I may raise an unusual case. It is reasonable to suppose that a firm of burglars will ostensibly conduct a second business, which will serve as a blind for their main operations. By way of contrast, they might promote a corporation for the purposes of supplying edifying literature for the benefit of heathens abroad and at home; or a window-cleaning business would give valuable opportunities of inspecting houses and examining the window fasteners. The nature of this subsidiary business is immaterial, but as it would probably not be conducted on strict commercial lines, losses are to be expected. How are these losses—or profits, for that matter—to be treated in the accounts of the firm? I suggest that a separate Profit and Loss Account be kept for the subsidiary business, and that the loss thereon (or profit) be brought into the establishment charges of the burglary business. The secondary business is only run for the benefit of the various burglary jobs, which, under this method, will each stand a proportion of the balance thereon.

At balancing times there will probably be a certain amount of Work in Progress, representing time or materials spent on jobs not yet completed. For example, there may be the wages of the courters, that is, men who obtain information as to the premises by means of courting the maids. (I should be sorry to tempt any student away from accountancy, but I may mention that there is excellent pay awaiting those who are thoroughly proficient in this work.) In addition, expenses may have been incurred in getting one of the burglar's staff into the building as a servant or clerk; or special instruments, e.g. oxy-acetylene blow-pipes, may have been purchased for future use. These expenses, together with a proportion of the Establishment Charges, will have been gathered together, and will form a debit balance. In view of the possibility that the job may be a failure, and that no *crédit* will be subsequently received, should this amount be allowed to stand as an asset in the Balance Sheet? I shall welcome any suggestions on the point. To me, the case appears to be similar to that of "Bad Debts," and the only course seems to be to make a reserve in respect of such as are "doubtful." In estimating this reserve, the accountant will, of course, take into consideration any material events which may have happened on the outstanding jobs between the date of the Balance Sheet and completion of same.

Another difficulty which arises when considering a Balance Sheet represents a novel and intricate problem in Contingent Liabilities.

It sometimes happens that when a job has been successfully completed and is apparently quite done with, circumstances arise out of that job which cause those who were concerned therein to undertake a quantity of totally unremunerative labour. This hard labour may extend over a period of years and is, of course, a dead loss to the business. The system of accounts under consideration requires that these losses should be charged against the job out of which they arose. But the accounts cannot be kept open indefinitely, and it is impossible to say whether any liability will arise, nor is there any statute of limitations fixing a date after which such liabilities cease. One imagines that such a matter will have been discussed by the Burglars' Control Board, but no method of treatment has been advocated. It shows rather a lack of initiative on the part of the insurance companies that they do not quote for a risk of this nature. An ingenious attempt to bridge the difficulty was made recently, but met with no success. In this case, the head of a firm, who was forced to undertake a course of five years of unremunera-

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tive labour arising out of a job in connection with a jeweller's premises, sent one of his workmen to take his place. He argued that the work was unskilled, and could be carried out as satisfactorily by his deputy as by himself, and that this course would leave him free to continue his usual occupation. Does Stevens deal with such a case in his chapter on "Principal and Agent"? The ruling was that he had no power to delegate the duties. This decision—though probably sound law—is another example of red tape hampering business initiative. The only way to deal with the position seems, at first sight, to be to build up year by year a Reserve for Contingencies Account. Would you, as auditors, be satisfied if no actual reserve was made out of profits, but it was stated on the Balance Sheet that there were contingent liabilities in respect of work done on certain premises?

At the risk of wearying you, I should like to carry this problem in liabilities a stage further. Suppose that, as the result of an indiscretion committed while on duty, one of the workmen forfeits his life: for example, he might lose his temper with a policeman who interfered with him. If the workman pays the extreme penalty of the law, a train of liabilities arises. Compensation must be provided for his family, and probably the firm would show its sympathy by subscribing towards a pension for the widow, and a tombstone for the policeman. How are these expenses to be dealt with from an accountancy point of view? As the workman has been hanged, it would seem appropriate to raise a Suspense Account in conjunction with a Sinking Fund.

I mentioned a little time ago the Burglars' Control Board, but I am quite ignorant on the point. Possibly, no such Board exists. I am willing to be corrected. But it seems reasonable to suppose that there is some such body which controls the members of the profession with a view to settling strikes, and to preventing those unscientific and slipshod burglaries which only cause annoyance to the general public.

Turning to the credit side of the accounts, it appears that the remuneration in the case of successful work may consist of money, or it may consist of valuables, e.g. plate or precious stones. The first case needs no comment, but in the second it may be asked how the valuables are to be converted into cash? It will be realised that it would hardly be prudent to sell them on the open market. It might be truthful, but not discreet to advertise: "Valuable Family Plate, as recently used by the Duke of So-and-so." I believe that there are two methods in vogue: first, to sell them to a "fence"—that is, a man who buys such goods, but of course at low rates; second, to change their form, e.g. to melt down plate or cut up stones and then sell them. This second method would appear to be the more profitable, as it does away with the heavy profits of the "fence," but it practically raises another department in the business. From the bookkeeping point of view this will be recorded by opening an account under some such title as "Conversion Account." The valuables brought in from a successful job will be valued, and the amount so arrived at will be credited to the Job Account, and debited to the Conversion Account. Conversion Account will stand the wages of the men engaged in the work of transformation, the selling expenses and a share of the general expenses, and be credited with the actual proceeds from the sale of the final product. Subject to the adjustment of stocks, the balance on Conversion Account will, at Balance Sheet times, be transferred to Profit and Loss Account, or it might be merged into Establishment Charges. Where the proceeds of any job are dealt with separately and rapidly, there is no reason why the final amount realised should not be credited at once to the Job Account instead of going into the intermediate stage of the Conversion Account.

On the question of taxation, I do not know whether anybody now present saw a report of the case of *Inland Revenue v. Sykes*. This case raised several

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interesting points, but the main issue can be summed up in the question: "Is a burglar liable for Excess Profits Duty?" For the Revenue it was contended that it was clearly not the intention of the legislators to exempt burglars. For it was argued, if you exempt a burglar, how, in common fairness and by analogy, can you refuse a similar concession to the laundry-man, the tailor, butcher, baker, and candlestick maker, who, in these days of grace, carry on business with the same objects of, even if with different methods from, the burglar? Sykes based his case on the grounds that he was carrying on a *profession*, and that professions are excluded from Excess Profits Duty under the Finance (No. 2) Act 1915, Section 39 (c). In support of this claim, he pointed out that the secrecy, the close relations existing between practitioner and client, and the total absence of advertisement, which were essentials of his business, were worthy of the best traditions of professional practice. Further, it was stated that the personal nature of a profession does not make it a suitable subject for limited liability, and that you may search the files of Somerset House without finding a company which includes burglary in its "object" clause—despite the growing elasticity of this portion of the Memorandum of Association. Judgment was deferred, and in the interval—by a curious coincidence—the houses of the judge, and also those engaged on behalf of the Revenue, were burgled. After this there seemed to be a reluctance to press the case, and I am not aware of the decision (if any).

I do not propose to trouble you any further at the moment, as I want to leave time for the students to ask questions. I hope you will not consider this paper entirely a frivolous one, as it is well to remember that the principles of accountancy remain the same whether you deal with the accounts of a barrister or a road-scavenger; of a huge co-operative stores or a fish-and-chip barrow.

I said at the commencement of this paper that burglars do not take kindly to bookkeeping. Perhaps this may be to some extent the fault of the accountant, who has undoubtedly neglected this branch. The remedy is for the accountant to get into sympathetic accord with the work of the burglar, to study his requirements, and to absorb the atmosphere and ideals of his work. If the accountant will do this he will certainly raise the standard of bookkeeping for burglars, and he will, in his turn, gain knowledge which may be of valuable assistance to him in future times of difficulties.

A Few Notes on Shipping Accounts.*

By W. R. Gresty, F.C.A.

Some knowledge of the working side of any and every business is necessary to an accountant. The outstanding features of shipping accounts and shipping business leading up to the accounts are considered in the following paper.

The title of my paper will, I think, have conveyed to you that the intention is not to deal in any finished manner with what is a very broad subject indeed, but, in a general way, to consider the outstanding features of Shipping Accounts and shipping business leading up to the accounts.

The subject is one of considerable local interest, and as my experience in this branch of audit and accountancy work has been gained almost entirely locally, you will understand that my remarks deal with the class of shipping business transacted at South Wales ports, viz. the carrying of cargo, either in bulk—and this predominates—or general cargo, the latter involving more detailed accounting work than the former and requiring special considerations.

Possibly some of the matter in this paper will strike you as being unnecessary from the point of view of a consideration of accounting records, but I would remind you of a principle that has often been laid down—that some knowledge of the practical working side of any business is essential to the due performance of one's duties either in the capacity of auditor or accountant.

At the outset, if any of you have gained the impression that there is something particularly complicated about Shipping Accounts or that very lengthy experience is necessary to enable one to deal with them, I would like to remove that impression. True, they possess features entirely their own, but, as I have indicated, an intelligent observation and grasp of the salient features of the business, coupled with a complete knowledge of the principles of double-entry bookkeeping will provide a very sound foundation on which to build up your experience and to give you sufficient self-confidence to tackle what may come your way.

First of all, I think we may consider what a cargo steamer is. My definition would be, a vessel designed to load, carry between ports, and discharge, the largest possible amount of cargo—consistent with its type—in the most economical manner.

The Board of Trade and the Underwriting Associations have laid down regulations requiring standards of stability in structure, with which builders comply, and according to the standard of stability the vessel is classified, Lloyd's 100 A1 being the highest classification. The cargo carrying capacity will be ascertained and the vessel will be recorded as of so many tons gross register, or gross registered tonnage,

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so many tons net register, and she will be of a certain dead weight capacity. It may be of interest to explain these terms: "Gross register" indicates the cubic capacity of the interior of the hull, ascertained by measurement and stated in foot tons; out of that, space will be occupied by engine and boilers, bunkers, accommodation for crew, storerooms, &c., and the remainder will represent the net register, i.e. the space in which the cargo will be carried. There will also be space available for deck cargo in addition. The dead weight capacity indicates the extreme weight in tons that a vessel may carry in safety. There is a "summer dead weight" and a "winter dead weight."

With a few unimportant exceptions every British ship must be registered, and the port where this is done is known as the Port of Registry. The registrar at the Custom House of the port is the person who undertakes registration, and on the requisite particulars being provided he enters them in the register and supplies the owners with a certificate of registry. I may say here that when a vessel is mortgaged as security for a loan the mortgage document must be entered in the register to render it effective; any subsequent mortgages are also entered and take priority in the order of the date of entry. A mortgage on a vessel is not one requiring registration with the Registrar of Joint Stock Companies under the Companies Acts. The Custom House register is open to any person on payment of a small fee, and evidence of ownership or of any mortgage or charge upon a vessel can always be obtained therefrom.

We may now pass on to the objects of the accounts in a shipping business. There is the common object of all accounting systems—the ascertainment of the true financial position at a given date and of the results of the working over a given period, but the main object of Shipping Accounts is to provide the ship-owner with accurate accounts of each voyage made by his steamers at as early a date as possible after the completion of the voyage. The Voyage Account should provide him with classified information of the actual expenditure incurred in respect of the voyage, dealt with under the heads of, say:—

Port charges, the charges incurred at each port being in most cases separately stated.

Wages of crew.

Bunker coals, the coal consumed by the boilers and galley fire, &c.

Provisions.

Deck stores.

Engine stores.

Repairs and maintenance.

Insurance.

Management remuneration.

Superintendence. Superintendent engineer and marine superintendent.

And as regards earnings:—

The freight or freights earned on the round trip.

Demurrage; and

Sundry credits for old stores, &c., sold.

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From this account, and with the aid of certain additional information always available in a properly organised office, it is possible to prepare valuable statistical information for comparative and other purposes, as, for instance, the quantity and cost per day of bunker coal used, or per mile steamed, the cost of provisions per man per day; the cost per day of deck and engine stores, and so on, affording among other things a check upon expenditure. From these accounts the ship-owner will be able to form a very good idea as to what business, or what rate of freight for certain ports, he should accept, and what is likely to prove unprofitable.

Turning now to the books of account usually found in use in a ship-owner's office, which, as you will see, are not numerous. You will find in all probability, a Cash Book; a Journal, which may be subdivided into Journal and Working Journal; a Ledger, the usual subdivisions being General Ledger and Personal Accounts Ledger; and supported by various subsidiary books, not necessarily account books, but providing records of the movements of the vessel and how employed, and upon what terms, dates of sailing and arrival at ports, time engaged in loading and discharging, &c. There will also be records of insurances effected entered in an Insurances Book, Bills Payable and Receivable Books. The several statutory books will also be kept, in the case of a limited liability concern owning the vessel or vessels, and nowadays this is almost invariably the case.

At this point I think I should indicate that I am not necessarily dealing with the accounts of any particular form of shipping undertaking, as, for instance, a single ship company or a line of steamers, but rather with the accounts of a single steamer, say, a unit of a line. It appears to me that, having learned something of the accounts of a unit, the extension of those accounts to cover the transactions of a number of steamers does not present any particular difficulties, it being borne in mind that the results of the separate voyages of individual steamers is what is aimed at.

The Cash Book calls for no special comment; it will record on the one side moneys received, passing intact direct into the bank, and, on the other side, cheques drawn upon the bankers. The disbursements in actual cash in a ship-owner's office are usually considerable, but are often made by the managers or owners out of their own funds. They from time to time render accounts of their disbursements, supported by vouchers, which are settled by cheques drawn upon the ship's bank account—that is to say, the bank account of the concern owning the vessel. There may be a fund in some cases to meet these disbursements under the imprest system, but it is not usual in my experience.

Journal.—Dealing first of all with that subdivision which I have described as the Working Journal, but perhaps a clearer title would be the Voyage Journal. This is a book which appears in a number of different forms but is generally used as a medium for charging up to the Voyage Account and at the same time classifying the expenditure incurred upon a voyage. At the head of the folio you will find the serial number of the voyage, the ports at which the vessel has called, the commencing and closing dates, and the number of days occupied

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upon the voyage. On the right-hand side of the folio spaces will be provided for the date of the account or invoice, the particulars of the expenditure incurred, the name of the person or firm to whom indebted, voucher number, Ledger folio, and the amount to be posted to the credit of the account in the Personal Ledger. The left-hand side of the folio is used for the classification of the expenditure, under the heads I have already indicated, with the addition of a sundry debits column to accommodate items which will not go direct to the debit of the Voyage Account. As an instance of the use of this column in the accounts of foreign agents it will be found that, among other disbursements made by them on behalf of the vessel at their ports, they have advanced cash to the captain, either for advances to seamen or for the captain's personal expenses. Such items are not charged direct to the Voyage Account, but are debited to a Personal Account of the captain, pending the completion of the voyage, when he will render what is known as a Portage Account. This book can quite easily be extended to combine both Voyage Journal and Voyage Account—a specimen ruling has been provided—it is by no means complicated; it proves most convenient in practice and eliminates a certain amount of clerical work, the transfer of the totals of the analysis columns to a Voyage Account in the Ledger being no longer necessary. Shortly, the extension is effected in this way: On the right-hand side of the folio an additional Journal column is provided—a debits column. In the place of the sundry debits column, on the left-hand side of the folio is inserted "Total Disbursements" column, and there is added a "Receipts on Voyage Account" column, so that on the left-hand side of the folio we now have a complete Voyage Account, the difference between the disbursements and the receipts column giving the result of the voyage, either profit or loss, with a full classification of the expenditure, and the right-hand side of the folio completes the Journal entries, debit and credit.

The other subdivision of the Journal is the simple form of Journal with which you are familiar, and it is used in connection with such items as do not affect, or only indirectly affect, the Voyage Account. I will deal with these later.

The Ledgers.—The General Ledger will not contain many accounts. The Voyage Accounts, unless kept in the combined Voyage Book and Voyage Journal I have referred to, Capital, or Share Capital Account, Cost Account or accounts recording the individual costs of vessels, or the total cost of the fleet in one account, various Reserve Accounts, Insurance Account or Accounts, Average or Damage Accounts—the subject of claims upon underwriters—and Profit and Loss Account, containing little besides the results of completed voyages and the particulars of appropriations of profits.

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The *Personal Ledger*, of the usual type, containing the accounts of tradesmen, agents, captains, managers, and others.

We may now consider a few points in connection with the purchase of a ship. An order may be given to a builder to build a ship to certain specifications, in which case payment will be made in instalments as the building proceeds. Interest will probably be involved in these payments, added by the builder, but it may be taken that whatever the total cost to the ship-owner ultimately be, it is chargeable to Cost Account (i.e. to capital). Other items frequently debited to Cost Account are the expenses and fees of the owner's superintendent overlooking the construction, cost of equipment of a permanent nature not necessarily included in the builders' cost, and cost of trial trip. The usual method of dealing in the books with the instalments paid to the builder is to charge them to Cost Account as they are paid, or become due on bills, and in the Balance Sheet to show the total instalments to date thereof under the head of "Instalments paid on steamer building," the amount may even be included under the head of the total cost of the fleet. The question then arises as to whether a note of the balance ultimately payable to the builder under the contract should be made on the Balance Sheet. It is certainly a liability, but there is also the liability of the builder to complete his contract. I am personally of the opinion that it should be noted thereon.

The purchase of a second-hand steamer requires no special consideration; it is quite often the case that the price paid includes a broker's commission, although the general rule is that the vendor pays commission. Again, many management agreements contain a clause providing for 1 per cent. commission payable to the managers on the purchase or sale of vessels, but the same rule in dealing with the cost may be observed; the *total* cost should be capitalised.

The transfer of the ship from the vendor to the purchaser is effected by what is known as a bill of sale. It is not a document subject to stamp duty, although a small customs fee is payable. It is presented to the Registrar of the Custom House at the port of registry, and the name of the new owners registered.

I very much favour the keeping of separate Cost Accounts for each vessel where more than one is owned. It simplifies matters in the event of a sale, the appreciation or loss of capital is much more easily ascertained than where *one* Cost Account for the whole fleet is kept. Very remarkable appreciations in values have taken place during the last few years, and steamers have changed hands much more frequently than was formerly the case. In this connection I have found the clearest and, I believe, the strictly accurate method is to note the Cost Account of the ship, transferring the appreciation in value—after allowing for depreciation written off—to a Capital Appreciation Account, or, if you like, a Capital Reserve Account.

A novel question arose under this head in connection with several companies for which I act, as to what extent the appreciation of capital, as realised, may be paid out to the shareholders without the company going into liquidation. It is obvious that if the company wishes to maintain the full tonnage of its fleet, with a more or less permanently enhanced market value per ton of all shipping, then the appreciation

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in capital value, as realised, will still be required to replace tonnage lost or sold. In the cases I have mentioned this was not the intention. The opinion of a very well-known K.C. was taken, a recognised authority in company matters. It was this, that so long as the original capital is fully represented, after providing for all liabilities, including previous losses, any realised appreciation over and above may be returned to the shareholders, assuming that the articles of association do not prohibit it. He remarked that there was nothing in the Companies Acts to forbid this being done. Another point of interest in the same connection, I think, is the Inland Revenue authorities agreed that shareholders participating in such a distribution need not return the amounts received by them individually as part of their income, so long as it is clear in the company's accounts that only appreciated capital is included in the distributions.

Depreciation may very well be considered in connection with the Cost Accounts. I am afraid it does not receive the attention of local ship-owners to the extent it should. The practice here, largely, is to write off, haphazard, such sums as may be considered available, either reducing the original cost or crediting Depreciation Reserve Account. In the days of the single-ship ventures it was not usual to write off depreciation at all, but an investor in such an enterprise recognised that the return he received upon his investment included, not only income, but a repayment of part of his capital. Now that practically every shipping undertaking is carried on under limited liability, with no limit set to the term of its existence, quite a different state of affairs should obtain, in spite of the fact that there is no legal obligation on the company's part to provide for depreciation of assets.

The useful life of a steamer is generally accepted as being 25 years, and although there are numbers of steamers running, particularly the old iron ships, well over that age, the expenditure necessary to keep them up to Lloyd's standard, or that of the society under which they happen to be classified, is very heavy, almost in some cases involving rebuilding, that under any but exceptional conditions they would prove entirely unprofitable to run. The Inland Revenue authorities have now adopted a very sound and reasonable scale of depreciation for income-tax (Schedule D) purposes. The 25 years term of life is the basis, and in the case of a new vessel one-twenty-fifth of the prime cost to the owner is allowed each year for twenty-four years, leaving one twenty-fifth balance to cover break-up value. In the case of the purchase of a second-hand vessel, say ten years old, whatever the purchaser pays for her is allowed to be written off over the remaining period of her term of life, which would be fifteen years, the same proviso as to break-up value obtaining. Of course, if a vessel is lost in the meanwhile, the allowance ceases. Now this, I submit, is the basis that should in almost all cases be adopted in Shipping Accounts, the cost of each vessel being reduced period by period. Whatever the market value of the ship above the original cost to the owner, the fact remains that wear and tear is taking place. Some ship-owners argue that the maintenance of the classification standard by the repairs, or even part reconstruction, necessitated at the periodical surveys, and the charging of the consequent expenditure to revenue, renders it

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unnecessary to charge depreciation. Their argument, you will, I think, agree, is unsound. If the full useful or profitable life is twenty-five years, then provision should be made to write off the cost over that term, or such balance of the term as may still be unexpired at the date of purchase, in the case of a second-hand ship.

The first thing that an owner does on the passing to his ownership of the vessel is to insure her. The subject of marine insurance is a very broad one.

It will probably be sufficient for our purpose if I indicate that it is usually effected with the underwriters through an insurance broker; that the time policy is the one most commonly in use, covering a period of twelve months. You will find that the average marine policy covers several heads of insurance. First of all there would be covered:—

- (1) So much on Hull and Materials.—Hull and materials, machinery, boilers, &c.
- (2) So much on Freight.—On the freight on cargo carried, as the loss of the vessel and cargo might also, but not necessarily, mean loss of freight or earnings.
- (3) So much on Disbursements.—That is to say, moneys disbursed for the running of the vessel on any particular voyage up to the date of loss—quite an insurable interest.
- (4) So much on Premiums Reducing.—Now the premium on a year's policy amounts to a very considerable sum on the average deep-sea cargo vessel. On the loss of a steamer nothing is returnable in the way of unexpired premiums, so that the unexpired proportion of the premium is quite a good insurable interest. You will understand that, as a policy runs out, so, day by day, the unexpired proportion of the premium is reducing, hence the term.

Under the four heads I have named the total sum insured will be arrived at, and it is the custom for underwriters to give a lower rate per cent. of premiums on (2), (3), and (4) than on (1).

Debit notes in respect of the insurance will be prepared by the broker and rendered to the shipowner. He will also supply what is known as the "copy of the policy," a document prepared for submission to the underwriters prior to the preparation of the policy, giving full particulars of the insurances to be effected—and this is the document that would give you most information in the event of your requiring to verify the sums recoverable on a total loss of the vessel. These debit notes you will probably find summarised on a total charge note, and 10 per cent. discount will be found deducted, the net sum represents the actual premium payable. This may be paid in cash forthwith, or, say, one-fourth in cash and the remainder under three, six, and nine months' bills. In the latter event interest will have been added to the bills, and the total, premiums and interest, is usually dealt with as insurance. It frequently happens that in addition to the freight insured under the main policy (or annual policy) a special freight insurance is taken out on a particular voyage, e.g. the freight may be a very valuable one, in excess of the sum already insured. The main policy frequently stipulates that the vessel shall not be employed in certain latitudes and longitudes at certain seasons of the

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year and under certain conditions ; then, in the event of a voyage into the prescribed waters an additional policy will be required, involving higher premiums.

The insurance premiums in the books are dealt with by means of the Journal, an Insurance Account being debited and the Brokers Account credited. The rate per day of the total premium will be worked out, and, by means of the Working Journal or Voyage Journal, the Insurance Account will be credited and the voyage charged under the head of insurances, with so many days' premium—according to the length of the voyage—at the rate per day ascertained. In this way, as the policy or policies run out, each voyage will bear its proper proportion of premiums and, at the end of the period covered by the policy, the total sum debited to Insurance Account will have been appropriated and transferred to the Voyage Accounts. An insurance on a particular voyage will be charged direct to that voyage through the Working Journal. In the case of a line of steamers it is not unusual for the owners to accept part of the total risk themselves—as an instance, say, $12\frac{1}{2}$ per cent. The underwriters are then asked to insure only $87\frac{1}{2}$ per cent. of the value of the vessels. An insurance reserve is then created in this way : each voyage is charged with so many days' proportion of what would represent $12\frac{1}{2}$ per cent. of the yearly premium payable to fully insure the ship, and insurance reserve is credited. When a loss or damage is incurred, the cost of making good the damage and expenses incidental thereto will be borne as to $87\frac{1}{2}$ per cent. by the underwriters and $12\frac{1}{2}$ per cent. by the owners, and the Insurance Reserve Account will be debited with the amount of the $12\frac{1}{2}$ per cent. If a total loss, the same proportions of the sum assured apply.

Now, the class of insurance I have been speaking of covers only perils of the sea ; there is another class covering practically all other risks, such as workmen's compensation, third party damage, and the like. This is effected through the insurance clubs. These clubs are generally known as Protection and Indemnity Associations. They are formed by a number of ship-owners for the purpose of mutual insurance. On a ship being entered in one of these associations a nominal entrance fee is paid. Each year every vessel entered in the club is charged, upon a tonnage basis, with an initial premium to provide the club with funds to carry on its work. Under the heads of " protection and indemnity " members will be protected in the cases of claims and demands arising out of damages caused, legal protection is provided, and the cases will be taken up and fought by the clubs in the Courts. Compensation cases under the Workmen's Compensation Acts will be dealt with—except that there is usually a clause providing that claims under a given small amount, say £10, or the first £10 of any claims, shall be borne by owners. As claims are met by the clubs, calls are made upon the members, in respect of their ships, to contribute thereto—also on a tonnage basis. These calls are generally charged through the Working Journal direct to the voyage in the course of which they come to hand ; this is hardly scientific treatment but, in normal times, answers very well.

Now, as regards *insurance rebates* ; it is usually provided that when a ship is in port above a certain number of days, say fifteen days, a

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rebate of premium is made by the underwriter. These are known as "laid up returns" and are credited to the voyage to which they apply by means of the Journal. In the event of the sale of a ship before the expiry of a time policy, a rebate of a considerable part of the unexpired premium would be made.

I will now pass on to the earning powers of a ship. A ship-owner is, of course, a carrier, and he agrees to carry cargoes at a given sum or a given rate—called freight.

The form of contract entered into between a ship-owner and a person desirous of chartering or hiring a ship to carry a cargo is known as a charter-party. It is a most important document; there are various forms, the commonest is that by which the owner agrees to carry at so much per ton dead weight, not exceeding so many and not less than so many tons of cargo from one of several given ports, e.g. Cardiff, Penarth, or Barry, to one or one of several other ports in a locality on behalf of the charterer. The owner will undertake that the ship will be ready to load on or about a given date, and cancellation will be provided for under certain circumstances. The charterer will undertake to load the ship within a given number of days called "lay days," and a penalty clause will be inserted that, should he fail to do this, he will be required to pay the owner damages at so much per day, called "demurrage"; on the other hand, should he load the vessel in less than the provided "lay days" the owner will be chargeable in respect of the time saved, at so much per day, called "despatch." There may also be a provision covering what is known as "dead freight," arising in this way: A charterer may agree to load up to a given dead weight, but through putting in a lighter class of cargo fills up the ship before that dead weight is reached. "Dead freight" would then be the freight on the difference between the weight of the cargo loaded and that agreed to be loaded and would be payable to the owner. The intake weights and the output, or discharge, weights on a cargo very rarely, if ever, agree, due to shrinkage and other causes. To avoid the delay and expense of weighing on discharge it is frequently agreed that a recognised percentage shall be deducted from the intake weights before calculating the freight.

A clause will be found covering brokerage and commission. Brokerage is the remuneration payable to a broker—a person who arranges business, that is chartering, between owner and charter—or merchant. Five per cent. is the recognised rate, calculated on the freight payable. In practice the 5 per cent. is almost invariably split, usually in one-thirds—this is a matter of arrangement between the parties. Commonly, one may find that the broker is to receive one-third of 5 per cent., the manager one-third, and the ship one-third.

The manager may personally arrange the charter without the aid of an intermediary and become entitled to the brokerage. As regards commission the charterer is usually entitled to consign the cargo to his agent at the port of discharge. The cargo will be addressed to that agent, who will carry out the business of the ship at the port and attend to the collection of freight, if not payable in this country. He will remit the freight to the ship-owners and will be entitled to an "address commission" of 2 per cent. on the freight.

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The foregoing considerations may be taken to apply to bulk cargoes only. Then there are what are known as general cargoes. Time would not permit of my giving this any more than a very superficial consideration. It is the class of business commonly transacted by ship-owners running a regular service between certain ports. The times of arrival and sailing of their vessels are advertised, they carry the general commodities dealt with at those ports at scheduled rates; they have recognised agents at each port carrying out the loading and discharging. The contract of loading is by a bill of lading. The bills of lading are written up on what are known as manifests, which show the name of the consignor and consignee, the quantity and description of goods carried, the rate and amount of freight and whether payable on shipment or on delivery. The totals of the manifests, subject to rebates, will give the total freight on the whole cargo.

I should mention in connection with loading and discharging that the cost of putting the cargo on the wharf or quay ready for shipment and the wharfage charges are borne by the merchant or charterer, the cost of taking off the quay and stowing or trimming are borne by the ship, as also are the costs of discharging on to the quay. There may be agreed modifications of these conditions.

There is another form of charter which is now much in vogue, known as a Time Charter. Under this charter the ship-owner lets his ship on hire to the charterer at so much per ton dead weight per month for a stated period, to be employed under the charterer's direction, within certain latitudes and longitudes. The conditions here are that the charterer pays all expenses in connection with the cargo, port dues, and bunkers, whilst the owner undertakes to maintain the ship in an efficient state, to provide and pay the crew and provision them, and to pay insurance on the ship and management commission. It might arise that certain port charges would be incidental to the obtaining and putting on board provisions and stores; these would be for Owner's Account and would be charged to him by the charterer.

There is, again, another form of charter, not frequently met with, known as Demise Charter, and in this case the ship is demised to the use of the charterer entirely, he discharging all expenses, engaging and paying crew, and paying the owner a net rate of hire per month. The agreement provides for handing back the ship in exactly the same state of repair as when she was delivered. At the termination of the charter this involves what is known as reconditioning.

As regards the collection of freight, the conditions of payment vary. Outward freights on cargoes, where the intake weights are accepted as the basis of payment, are sometimes payable as soon as the ship is loaded. On the other hand, a portion of the freight may be payable in advance—that is, “*advanc freight*”—and the balance on delivery. Freights on inward cargoes—cargoes coming to a United Kingdom port—are commonly payable on the output weights, and a point arises here. A consignee does not wait until his cargo is fully discharged before claiming it; he pays an estimated sum, say, on the basis of approximately the intake weights less a percentage, subject to a final adjustment on ascertained output weights. The consignee may have a claim against the ship-owner for damaged cargo and will then refuse

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to pay the balance of freight due by him until his claim is settled ; this is not infrequently a cause of delay in closing a Voyage Account.

There is another small item of income to be looked for, and that is the sale of old stores, ropes, separation mats, or cloths, used in separating different lots of cargo. This is described as dunnage ; these amounts are credited to the voyage period in which they are sold.

It now remains to deal with the expenditure side of the Voyage Account. I have indicated the heads of expenditure, and I will take them in the order given.

Port Charges.—These include dock and tonnage dues, towage, pilotage, stevedorage, or trimming—the expenses in connection with loading, cost of discharging, wharfage on bunker coals ; boating—the hire of boatmen engaged in passing the lines, that is to say the ropes, on coming into dock or moving alongside a berth. Riggers' charges, the men who act as a nucleus crew in moving a ship about the dock after the paying off of the old and before the signing on of the new crew. Lights, or light dues, a charge levied, on a tonnage basis, to meet the cost of lighthouses, &c., on these shores, and, by the way, the receipt for this payment will always be, with the ship's papers, kept on board, but old receipts can be obtained, the current receipt only being required with the ship's papers. There are also various shore expenses, incurred by the owner's staff and superintendents, charged under this head.

At the home port these disbursements will be made by the owners or managers and an account made up with the vouchers attached. A cheque will then be drawn in payment on the ship's account. At any other United Kingdom port these and other disbursements, as for stores, bunkers, cash advanced to captain, &c., will be made by an agent at that port, who will render an account to the owner, including his agency fee. The account will be accompanied by vouchers for all payments. On receipt it will be checked and summarised under the heads adopted in the Working Journal and the summary attached to the account, which is then entered in the Working Journal, the extensions being made under the appropriate heads of expenditure. The same procedure obtains at a foreign port, disbursements being made through an agent. Foreign agents' accounts may be paid by means of a bill drawn on the owners and signed by the captain before sailing from the port, or the account may be sent through the post and a remittance made by a banker's draft, payable at a foreign bank at or near the agent's port, the amount of the draft being expressed in the appropriate foreign currency. In dealing with the conversion of the currency in which the account is made out, the rate of exchange ruling at the time of payment will be adopted as the basis of conversion to sterling, so that differences in exchange in the ship's accounts do not arise.

Wages.—The crew are signed on at the Board of Trade Office, where the conditions of service are read out to them by an official. Advances of wages are made, and the master (or captain) issues advance notes. These are usually payable at the owner's or agent's office three days after the ship sails, provided the man named therein sails in the ship. The notes are cashed by the seamen with boarding-house

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keepers and others, who obtain the signature of the payee on the note and, in turn, cash it with the owners or agents.

Allotments will be made by members of the crew in favour of their dependants, providing for periodical payments on account of their wages, the allotment notes being issued by the captain. The ship-owners pay the allotments as they become due, either on presentation at the office or through the post, and each payment is endorsed on the allotment note. Tobacco and sundry stores are supplied by the master to the crew during the voyage, which are charged to the Wages Account of the individual in the master's book ; each individual is also charged with the advances made to him and with his allotments ; he is charged with his proportion of National Health Insurance and he is credited with his wages for the voyage, overtime whilst in port, &c., and at the close of the voyage the crew is paid off. This is all done by the master. If a seaman dies on the voyage or is left behind at a port in hospital his wages up to the time he dies or leaves the ship are paid over to the Board of Trade against claims by his relatives or by himself, as the case may be. The Wages or Portage Account is not dealt with in the owner's office until after the crew is paid off. Now, as regards the books of account, the Captain's Account in the ship-owner's books will have been charged from time to time with all advances and allotments to crew whether made by owners or agents, and with cash advanced to him at home or foreign ports, those sums advanced at foreign ports appearing in the foreign agents' accounts to the owners under the head of Cash to Captain.

Before paying off, the captain will notify the owners or agents that he requires a certain sum for that purpose ; this will also be debited to his account. After the crew is paid off he will render his Portage Account or wages bill. There is a recognised form for this account. It contains a full list or schedule of those persons who have served aboard during the voyage, showing against each the period of service, rate of pay per month of 30 days, amount of pay, bonus, &c., also the insurance deductions, advances and allotments made, and balance due on paying off—in fact, a tabulated statement prepared from the individual accounts in the master's book. There will be a list of the master's personal disbursements at the various ports called at, and finally the Debit and Credit Account with the owners. In this he will debit the owners with the total wages shown by the Wages Account and with the total of his personal disbursements for expenses, and will credit the total of advances and allotments paid by owners or by agents on behalf of owners, also all sums drawn by him personally from owners or agents.

The accounts having been checked, an entry is made through the Working Journal crediting the master with the total wages and disbursements, and an extension is made under the head of Wages, Port Charges, &c., on the left-hand side of the folio, thus charging the Voyage Account therewith. A comparison with the Master's Account in the Ledger will then be made, and differences in exchange in respect of sums drawn in foreign currencies will arise, due to variations in rates of exchange between the date when the captain drew the cash and the date the owners paid the Agents' Account, these being written

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off to the Voyage Account. The balance shown by the Ledger should then agree with the balance appearing on the Portage Account, either due to or from the master, which should be at once discharged.

Bunkers, Provisions, Stores, may be considered together. The accounts of the collieries or coaling firms and of the tradesmen are passed through the Working Journal and charged up under the appropriate heads. All accounts for coals, stores, &c., supplied to the ship will be signed by an officer as evidence of having been received on board. The same applies to all accounts for services rendered to the ship with the exception of certain port charges calculated on a tonnage basis. The stock of bunkers, stores, and provisions should be taken at the end of each voyage and the value credited and carried down against the following voyage. This is not always done, but for accurate records, and particularly for statistical information, it should be done.

Insurance.—I have already dealt with this subject, but I will recapitulate a few points. First of all the Brokers' Accounts for the insurance under the main policy—the time policy—marine risk and war risk. An entry will be made in the Journal—not the Working Journal—charging Insurance Account and crediting the broker. According to the number of days occupied by the voyage a proportion of the insurance premium will be transferred by means of the Working Journal to the Voyage Account, the amount being extended in the insurance column. The premiums on insurances relating to individual voyages only are charged through the Working Journal direct. Club calls generally are charged in the voyage in the course of which they are made. This is not strictly accurate, but, as calls frequently relate to claims made upon the clubs in respect of periods some considerable time previous, it is difficult to deal with them otherwise. In normal times the calls over a given period are fairly consistent.

Repairs are generally charged as incurred, small repairs incurred on the voyage will appear in the Agents' Accounts and from thence find their way into the Voyage Account. Engine room repairs at the close of a long run will probably be considerable and should appear in the voyage out of which they arose. Repairs due to collision, stranding, heavy weather damage, and so on, which are covered by insurance, will form the subject of an Average Account. This is a matter for the average adjusters. The average adjuster is a professional man who deals with claims of this type and prepares them for submission to the underwriters. It is not unusual for large claims to be awaiting settlement for as long as two or three years; it depends upon the circumstances. In the meantime the expenditure incurred has to be dealt with in the books. Not only the expenses in connection with the making good of the damage but all expenses incidental thereto will be for Average Account. For instance, in a stranding case lighters for discharging a part or the whole of the cargo may have to be engaged, tugs to assist, and so on. Cost of cables, port charges, &c., relating to the damage will be incurred. Expense of owner's superintendents, Lloyd's surveyors, and others, all in connection with the damage. The average adjuster will make up his account apportioning the expenses as between the underwriters and the owner's insur-

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ance fund (if the owner has accepted a proportion and not fully insured with underwriters), and he will also show what proportion of the various expenses accounts submitted should not be charged against the damage at all. He will show the proportions to be contributed by the various underwriters and, in certain cases, what proportion the underwriters of the cargo will bear. It does not follow that the claim will be admitted as made up by the adjuster, but generally, excepting very unusual and complicated cases, the average adjuster will not be far out, and, pending agreement, the books may be written up on the basis of his account—the Average or Damage Account being debited with amounts shown as payable by underwriters, and if, as I have said, the owner has accepted part of the risk as against his insurance fund, the proportion shown will be so charged. If the cargo has suffered damage, the amount payable by the underwriters will be charged to the Average Account and credited to the cargo owners. On final settlement any difference will be transferred to a Suspense Account, and the balance of the Suspense Account, the cumulative result of possibly a number of cases, will be written off to Profit and Loss Account at the end of the financial period. In the Balance Sheet all disbursements on Average Accounts remaining unsettled will appear as disbursements considered recoverable from underwriters. It is usually the case when heavy expenditure is incurred in connection with a Damage Account that underwriters will advance sums to the owners on account, pending settlement. All repair accounts generally should be passed by the owner's superintendent engineer and no account paid until so authorised.

Periodically, steamers are surveyed by the Surveyors appointed for that purpose by the underwriting associations, and at certain surveys it is recognised that heavy repairs will be incurred in order that the vessel may retain her classification, or, in other words, her standard of stability. It is quite usual to set aside out of profits sums to meet this expenditure, a Classification Reserve Account being created. With the assistance of the superintending engineer, who will be conversant with the condition of the vessel or vessels, the amount of expenditure on forthcoming surveys can be estimated approximately well in advance. Generally, classification repairs are not dealt with in the Voyage Accounts, but in the Profit and Loss Account as indicated.

Superintendent's Charges.—The managers or managing owners of a line of steamers employ their own marine superintendent—or ship's husband, to use an old term—and a superintendent engineer, to whom they on their own account pay fixed salaries. They have the right to charge each vessel at a given rate per annum to recoup their expenditure. In other cases professional consulting engineers are employed, and their fees, which take the form of fixed annual sums, are charged to the voyages on the basis of the time occupied by each voyage, an Intermediate Account for superintendence being used as in the case of insurance.

Management Remuneration will be fixed by the management agreement and generally takes the form of a commission, certain brokerages, and a fixed salary per steamer. On the formation of a shipping

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company certain individuals interested in the promotion will reserve to themselves the management rights, which are embodied in a management agreement. Generally, the terms are $2\frac{1}{2}$ per cent. on gross earnings of each vessel, or 5 per cent., if on time charter, and one-third of 5 per cent. brokerage.

A fixed salary of, say, £250 per steamer per annum will also be provided for to cover rent of offices and clerks' salaries, the managers providing office accommodation and clerical assistance. The agreement may also provide for the payment to the managers of the insurance discounts. In the event of the purchase or sale of a steamer 1 per cent. commission on the sum involved may be stipulated, but this is not a general provision. The treatment of this remuneration in the books is fairly obvious, the commission and brokerage will be charged through the Working Journal against the voyage to which it applies, and the fixed annual charge will be apportioned according to the length of the voyage. If the insurance discounts are taken, the gross premiums will then fall to be apportioned or charged to the voyages, and, as regards commission on purchase or sale of vessels, these do not concern the Voyage Accounts at all but increase or reduce the amount paid or realised; as before indicated, they are of a capital nature.

I think, gentlemen, that I have now fairly covered the ground of the everyday transactions met with in connection with Shipping Accounts. As I indicated at the outset, it is impossible to deal with the whole subject, even of the particular class of business transacted at our local ports, within the scope of a single paper; the particular requirements of the general cargo business I have not found space more than to touch upon, but I shall hope to have made myself sufficiently intelligible to arouse something of the interest which I, personally, have found in the subject, and even to have been of some little use to those who may be complete strangers to this branch of our professional work by indicating what they may expect to meet with if called upon to undertake it.

There is with every Britisher a more or less latent interest in the sea, and although there may be nothing particularly romantic about the accounts, still something of the romance of the sea is to be found in dealing with the matters that lead up to them. If nothing else, there will be gained a greater appreciation of the importance of our mercantile marine and its vital necessity to us as a nation, and, further, a better appreciation of the work and the lives of those who form its personnel. I thank you, gentlemen, for your attention.

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The Grammar of Law.—II.

By Donald Mackay, B.L.

In the following article Mr. Mackay shows how the interpretation of the law is affected by various influences, such as the peculiar circumstances of a case, the customs and social habits of the time, and the individual rights and obligations of the parties.

2.—Development.

The expression Law implies a lawgiver, some supreme political authority who is at the head of the State, city, or other political unit. In fact, one school of jurists defines law as the expression of the will of a sovereign authority, but this has to be understood in the sense that not only is it the conscious expression of such will, but that it has recognised and adopted, either expressly or by implication, the common law and the customs out of which the common law grew, even though such customs were in existence before the creation of a supreme political authority. Many legal conceptions are historically older than the intervention of the State. It is thus not quite accurate to regard law merely as that which the State wills. "Law is enforced" by the State because it is law, it is not law merely because the State "enforces it." Nevertheless, to the modern mind the law practically means the command of the State.

As already pointed out, the two chief factors in the growth of law are the legislator and the judge; the governing authority amends and alters the laws, the judge interprets them. Interpretation is the process of fixing the application of legal principles in concrete cases.

Generally speaking, in interpreting a statute, the first duty of the judge is to ascertain and give effect to the plain meaning of the enactment, but even here the process of interpretation may operate in the way of making new law, for it is always open to the judge, in cases where the statute is susceptible of different readings, to give a narrow interpretation or a liberal interpretation; whether he adopts one course or

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the other, depends on how the purpose of the statute appears to him to fit in with the common law, prevailing public sentiment, and his own conceptions of justice and fair play.

It is, however, in interpreting the common law that the judge appears more frequently as the maker of new law. Customs change from time to time according to the social habits of the people. These influence judicial opinion which is reflected in the decisions of the Courts, also the leaders of public opinion and the writers of text-books on law, political economy and ethics are continually pointing out defects in legal principles and administration. These criticisms have, from effect on the Courts and in course of time, influenced the decisions of the judges.

In this respect, what is termed Precedent plays an important part in British law. The decisions of superior courts, and the reasons given for them, are treated as authoritative; are, in fact, treated as in themselves laws. Subsequent cases are influenced by these prior judgments or precedents, which being to a certain extent applied to a new variety of facts, create fresh precedents, and thus the original rule is gradually more and more affected. This is not a matter for surprise, for no general rule can anticipate all possible questions.

An important branch of law is procedure, i.e. the rules according to which cases are tried, and the parties given an opportunity of placing their respective sides of the case before the judge. The task of framing rules of procedure is naturally left to the judges, and they are amended from time to time as experience shows what improvements are required. Procedure rules are not mere formality, they are valuable apart from the general law, for, as we have pointed out, law depends on the Courts for its enforcement, and its value and the respect which it commands depend upon the facility with which its rules and principles may be made effectual in a Court of Justice. The rules of procedure guide the subject on seeking the aid of the Courts, and regulate the powers and discretion of the Court itself.

3.—Definition of Terms.

Persons and Things.

Two main objectives of law are persons and things. The person may be a natural person, i.e. an individual human being, or an artificial person like a company, municipality, or a society. Thus a legal person may be defined as a human being, or an aggregate body of human beings, looked upon as a subject of law. Such a person is entitled to the rights, and liable for the duties of the system of law under which he lives. Law is only concerned with persons as the subject of rights and duties. Both the natural and the artificial person may be incapacitated from exercising their complete legal rights. In the case of the former, this may be due to age, mental condition, sex, or special legal restriction, e.g. bankruptcy. In the case of the artificial person, its actions may be limited by its constitution, or the terms of the trust which it is fulfilling, or by special statutory limitation.

Like persons, things may be understood in the natural meaning of that word, namely, physical substances, but there is a legal conception of the term "thing," whereby it is extended to non-physical or incorporeal

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things. Thus a share in an inheritance, or a partnership, or a company, has no physical existence, but it is a thing which is capable of being assigned and transferred from one party to another, just as actual goods are. A comprehensive definition of "Thing" is any matter in regard to which legal rights and duties may arise. Things in any sense of the term have no place in law except in relation to persons.

Both in regard to person and thing, a point to be noted is that their legal meaning is considerably wider than the popular one.

Rights and Obligations.

Each member of a community has the privilege of invoking the aid of the supreme authority of the State for the purpose of securing and enforcing his legitimate actions. This privilege is his right under the law. The occasion for resorting to the supreme authority may arise in various ways. First: In regard to his personal liberty, the protection of his life. Second: As regards ownership of property which he may acquire. Third: As to his rights under contracts which he may make; and fourth, as to redress of wrongs done to him.

These rights create corresponding obligations. Thus, as regards liberty of the person, there is implied a corresponding restraint in others. In the case of ownership of property, the corresponding obligation is to abstain from interfering with what belongs to recognised owners; in contracts, what the one party is entitled to, the other is obliged to give; and as regards claims of redress or damages, the obligation rests on the party against whom they are directed.

It is clear from the reciprocal nature of rights and obligations that all rights accorded to one person imply a restriction upon the freedom of others; it follows that as one man's rights are extended, another's are necessarily contracted. Here we touch on the great problem of political science; what amount of restriction upon the liberty of each tends to secure the greatest aggregate amount of liberty for all.

Acts and Events.

These are two great categories of the law which require consideration in connection with rights and duties. Things are brought into relation with persons, and persons with each other, thereby causing rights and obligations to arise, by events and acts. The distinction between them is far-reaching, and one which should be constantly borne in mind. A legal act is voluntary, implying will power and the consent of the doer. If the will and consent are absent, it is not in law an act, but an event. Acts are the result of human volition; events are what happen independently of the will of the party, (a) by natural action, (b) by force of law. Thus death is an event, intestacy giving rise to a fixed legal order of succession is an event; succession, according to will, is an act resulting from the intention of the deceased.

Acts may be unilateral as in the case of a will, a promise, a guarantee, a gift; or bilateral, as in the case of a contract, in which case a joint consent is necessary.

It is a general presumption that persons consent to what they do, and that they realise, at least in their immediate effects, the consequences of their actions. In certain cases, however, law permits of exceptions to the presumption. The chief of these are: First, in respect of age, a person

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in the early years of infancy is deemed incapable of forming an intention. What that age is varies according to the laws of different countries. Second: An insane person is deemed incapable of having an intention of giving consent, and in certain circumstances other states of mind, such as that implied in drunkenness and in excessive passion, have been held to repel the presumptions of voluntariness and intention. Third: Consent, induced by error, force or fraud is deemed not to have been voluntarily given; owing to the deception practised, the act is held not to be intentional. Fourth: Ignorance. There is a general presumption that everyone knows the law, but that is a general rule adapted for the practical purpose of the better administration of the law, for if ignorance of the law were accepted as an excuse, there would be no end to the work of the Courts. Nevertheless, the law recognises that the general rule may operate harshly, and it is a well-known part of judicial discretion to take notice of the circumstances and disadvantages which might excuse ignorance of the law, and to modify penalties or damages accordingly. Fifth: Accident. This is a term denoting the absence of intention. It is a quite stateable defence in law, when a person is alleged to have injured another, to aver that there was an entire absence of fault on the part of the defendant, that the occurrence was a pure accident.

The law has found it necessary to prescribe certain methods of ascertaining intention. In old times acts were hedged around with much formality, the design being to emphasise their importance. The modern tendency is averse to formality, and seeks to arrive at the actual intention by any competent means for ascertaining it. In certain cases yet consent must be evidenced in a formal prescribed way.

An act in law implies its legal consequences, whether the doer intended these or not. It is a difficult question how far this responsibility extends, but the general rule is that the doer of an act is liable for its natural and probable results, so far as a reasonable man in his place, and with his means of knowledge, could have foreseen.

The Fundamentals of Accountancy.—XI.

By Lawrence R. Dicksee, M.Com., F.C.A.

(Sir Ernest Cassel Professor of Accountancy and Business Methods in the University of London).

"The function of auditors is to examine the accounts placed before them by accounting parties, in the light of the evidence available, to arrive at a definite conclusion as the result of such inquiry, and to report the result of that conclusion to those by whom they are appointed." In these words Professor Dicksee sums up the general functions and duties of auditors, which are discussed in the following chapter.

XLIX.—The Principles of Auditing.

In early days, when education was the possession of the few rather than the many, it was the custom for slaves who had been engaged upon their master's affairs to report verbally at frequent convenient intervals to "clerks," or "scribes," who then placed their transactions upon record. As the word naturally implies, these clerks or scribes were in fact the original "auditors." Their function was to ascertain by hearing what had been done by persons liable to account, and to report accordingly to those by whom they were employed. So long as the "clerks" (or auditors) were an entirely separate body from the accounting parties, the system doubtless worked well enough, more especially when we bear in mind that they doubtless belonged to entirely different classes, so that collusion between the workers and the "clerks" was practically out of the question. But with the advance of education and the decline of slavery, the tendency would naturally be for this very necessary barrier to be broken down. In theory at least (*vide* Section IV) the Accountant is supposed to keep himself entirely separate from the practical or operative workers; but in practice all duties in connection with the handling of Cash seem to have been transferred from the latter to the former, with the result that there was no revision of the transactions of accounting parties just at that point where they were most vulnerable. With the recognition of this fact dawned the appreciation for the need of something in the nature of a super-auditor, thus giving rise to Auditors in the modern acceptance of the term.

L.—Auditors.

An audit, in the modern sense of the term, is an examination of accounts conducted by (or on behalf of) those having a proprietary interest in the undertaking. Assuming the proprietors to be possessed of the necessary skill, and to have the required time at their disposal, there is, of course, no reason whatever why they should not undertake the audit for themselves; but although many business and professional men still profess to audit their own accounts, it is doubtful whether many of them possess either of the required qualifications. Again, if the proprietors are at all numerous, a joint audit undertaken by them all must necessarily be a very cumbersome and lengthy affair, involving incidentally a deplorable waste of time. Hence we find that practically from

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the first it was customary for the proprietors of a company (the shareholders) to appoint a few of their number as a sort of Audit Committee, to conduct the required inquiry on behalf of all. The original "Table A" appended to the Companies Act, 1862 (Articles 83 to 94 inclusive), provided for such an audit, and empowered the Auditors, at the expense of the company, to employ accountants or other persons to assist them in investigating the accounts. Until about 30 years ago it was customary for the Private Act incorporating a parliamentary company to stipulate that its Auditors must be members of the company, but this provision is rarely to be found in Acts of Parliament since 1890. With the growth of the accountancy profession it has become the usual practice to employ professional accountants as Auditors of companies, although there is still nothing whatever to prevent persons who have no professional qualifications from being so employed.

LI.—The Functions of Auditors.

Where an Auditor is employed in pursuance of a statutory provision, his duties are defined by statute. In other cases, his duties are determined by the contract of his appointment, whatever its precise terms may be. But it is, to say the least of it, arguable that a definite meaning has now crystallised around the words "Audit" and "Auditor," and that accordingly when these terms are employed there is an implied undertaking upon the part of the Auditor to do all such things as are usual, or necessary, in the circumstances of that particular case. Accordingly, where an Auditor is employed under a special contract, and the arrangement does not provide for what may be termed a complete audit, it is most desirable in the interests of all parties that the terms of the contract should be explicitly defined. This aspect of the matter is further discussed in Section XII.

The function of Auditors is to examine the accounts placed before them by accounting parties in the light of the evidence available, to arrive at a definite conclusion as the result of such inquiry, and to report the result of that conclusion to those by whom they are appointed. The evidence may be documentary or oral, and in almost every case will be partly one and partly the other. An audit is thus essentially a matter of sifting evidence, and arriving at a conclusion as a result of the evidence. The functions of an Auditor are accordingly quasi-judicial. The Auditor's report, which should be wholly in writing and all comprised in the same document, should state whether or not he has obtained all the information and explanations he has required, and whether in his opinion the Balance Sheet referred to in his report is properly drawn up so as to exhibit a true and correct view of the state of the company's affairs according to the best of his information and the explanations given to him, and as shown by the books of the company. The Auditor's report must be honest, i.e. he must not report that which he does not believe to be true. In the discharge of his duties the Auditor is bound to bring to bear such reasonable care and skill as a reasonably careful and skilful auditor would do. In the event of the result of his examination being such that he is unable to report affirmatively, or favourably, upon the lines indicated above, it becomes his duty to state in what respects he has to report negatively, or unfavourably. It is not sufficient to attempt to put interested parties on their guard by suggestion or innuendo. It is the duty of the Auditor to arrive at an honest opinion as the result of

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his inquiry, and frankly to place that opinion in writing before those by whom he is employed.

LII.—The Audit of Transactions.

Under this heading, it is the duty of the Auditor to ascertain that the transactions recorded in the accounts are truly and correctly recorded. Obviously, there are limits to the possibility of an Auditor detecting omissions, but it has been well said that "the Auditor is bound to know "everything that the books tell him, to have all the suspicions that the "books suggest." Taking the record as it stands, the Auditor must satisfy himself, as far as possible by evidence outside the accounts themselves, that the transactions there recorded did take place, and where these transactions were conducted by agents, that such agents were acting within the scope of their authority. In the audit of companies, it is important to bear in mind that no company has unlimited powers, and that accordingly no company can authorise any of its agents to conduct transactions which are beyond the power of (*ultrâ vires*) the company. Hence the powers of a company, as defined by its Memorandum and Articles of Association, or Private Act, as the case may be, are an all-important part of the evidence the Auditor has to consider.

LIII.—The Audit of Results.

Individual transactions, properly recorded, build up into consequent balances upon appropriate Ledger Accounts. These balances mean the results of the transactions. The Auditor must not rest content with an examination of transactions as isolated units, but must further examine their combined result as shown in the Ledger balances which the Trial Balance summarises. In particular he must satisfy himself that, in the closing of the accounts, and the preparation of the usual Balance Sheet, Profit and Loss Account, &c., the proper distinction has been made between Capital and Revenue, and that (where necessary) further adjusting entries have been made to give effect to all continuous or "imperceptible" transactions. The proprietors of a private undertaking have, of course, the power to make whatever Reserves they may think necessary for future contingencies, and the Auditor is only concerned to the extent that he must satisfy himself that the Reserves that they have made are, in his opinion, sufficient. In the case of a company, almost certainly similar powers are given to the Directors by its constitution, in which case the Directors have power to create "internal" or "secret" Reserves (*vide* Paragraph XLVIII). It has been held, however, that it is *ultrâ vires* for a company by its regulations to attempt to interfere with an Auditor's statutory power of reporting to the members of the company as fully as in his opinion circumstances make desirable. If, therefore, in the opinion of the Auditor, it is against the interests of the company, as distinct from the interests of the Directors or of individual shareholders, that the extent or nature or existence of these internal Reserves should remain secret, it becomes his duty to disclose in his report that which in his opinion ought to be disclosed. This dictum should not be strained too far; but it clearly applies in cases where the undisclosed reserves have been applied by the Directors in an undesirable or improper way, for in the nature of things, undisclosed Reserves having been removed from the accounts, it follows that the accounts will not show their subsequent application or allocation, unless of course those responsible for the preparation of the accounts expressly desire that they should do so.

Audit Programmes and Procedure.—XI.

By Andrew Binnie, F.C.A., C.A.

The articles relating to matters common to all audits are completed by the following contribution. The remaining articles of the series will be devoted to a consideration of special points arising under different classes of audits.

Foreign Exchange.—An actual realised difference in exchange can only arise where a completed exchange has been made in cash or goods, but in raising a Balance Sheet foreign moneys have to be brought in at some agreed rate, and so a difference in exchange arises. The original practice was to adjust the accounts at the rate prevailing at the close of the year. Where exchanges were unstable, this led to such large differences of exchange as to obscure the true result of the trading, and the practice was adopted of converting at the average rate of the trader's own remittances throughout the year. The difference arising on conversion may be attributable partly to Capital and partly to Income, and should be charged proportionately, but this is a refinement which is not invariably followed.

Fixed assets are retained at the original rate at which converted. Any actual gain or loss could only arise on realisation, and would be a gain or loss of Capital. The floating assets should be converted at the average rate.

Minutes.—The minutes of the meetings of directors should be read, so as to see that all matters affecting the accounts as settled by a properly constituted quorum of the directors have been duly dealt with.

NOTE.—One cannot constitute a quorum. A director who is precluded from voting by reason of a personal interest in the matters under consideration must not be reckoned as present for the purpose of making a quorum.

Share Certificates and Transfers.—The auditor is not concerned with the rights of individual shareholders, but he is frequently employed at a special remuneration to check all the work relating to transfers and share certificates prior to each board meeting. In any case, a list of the shareholders should be taken out and agreed with the share capital at the date of the Balance Sheet, but in important matters it is preferable that the work be checked thoroughly at least once a month by special arrangement.

Private Companies.—According to a recent decision an informality in the procedure of private companies does not necessarily invalidate the proceedings. As for example, business which should have been carried out at a meeting being carried out at a directors' meeting, the directors being the only shareholders, and all being present. An allotment of shares made at the statutory meeting of shareholders instead of at a board meeting would presumably be held to be good, the directors and shareholders being the same persons, and all being present.

Objects of Company.—The auditor should see that to the best of his judgment the transactions generally are within the objects of the company as defined in the memorandum of association, and within the

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powers of the directors as defined by the articles of association. If in doubt, legal opinion should be taken.

The Balance Sheet.—The suggestions made in “ Audit Programmes and Procedure ” having been carried out, and the component parts of the Balance Sheet sufficiently tested and sifted, the only question remaining is the marshalling of the Balance Sheet items. In England, contrary to the practice in Scotland and on the Continent, the custom is to set out the Share Capital and Liabilities on the left-hand or *Dr.* side of the Balance Sheet, and the Assets on the right-hand or *Cr.* side. At one time the practice was to insert the words “ Share Capital and Liabilities ” as a heading on the *Dr.* side, and “ Assets ” on the other. To those who were aware of the time-honoured bookkeeping distinction between *real* and *nominal* assets the headings presented no difficulty. As, however, Liabilities include what are only nominal liabilities, such as the apportionment of expenses paid in advance, and as the assets may include not only nominal assets, but even a debit to Profit and Loss Account, the headings are seldom inserted nowadays. The Share Capital is usually stated first, in the following form :—

Authorised.

1,000,000 Shares of £1 each £1,000,000

Issued.

500,000 Shares of £1 each fully paid £500,000

The auditor is thus able to see at a glance that the issued Capital does not exceed the authorised. (It has happened, however, that a Balance Sheet in this form, from which it clearly appeared that the issued Capital did exceed the authorised capital, has been passed without comment by the Directors, the Auditor—an amateur—and the shareholders.)

The liabilities should be marshalled in some definite order, for example, the order in which they rank as to security. On the “ Assets ” or *Cr.* side, the “ Assets ” may be marshalled in the order in which they are considered to be realisable, beginning or ending with “ Cash in hand.” By a convention, the Profit and Loss Account balance is always the last item on whichever side of the Balance Sheet it happens to be. Where sundry items are grouped together under a general heading in the Balance Sheet, a schedule should be made for the auditor's use. The figures in the Balance Sheet and accounts should be compared with the corresponding figures of the previous year or years, and if there be any striking variations, the cause should be ascertained.

NOTE.—It is convenient to have the accounts arranged in the Private

Ledger in the order in which they appear in the Balance Sheet. Parliament has enacted that the accounts of certain undertakings, including Railways and Tramways, Gas Companies, Assurance Companies, Electric Lighting Undertakings, Building and Friendly Societies, shall be presented in a prescribed form. (See articles under respective headings.)

Auditors' Report.—The Companies (Consolidation) Act, 1908, Section 113, provides that—

The auditors shall make a report to the shareholders on the accounts examined by them, and on every Balance Sheet laid before the company

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in general meeting during their tenure of office, and the report shall state—

- (a) Whether or not they have obtained all the information and explanations they have required; and
- (b) Whether in their opinion the Balance Sheet referred to in the report is properly drawn up so as to exhibit a true and correct view of the state of the company's affairs according to the best of their information and the explanations given to them, and as shown by the books of the company.

The Balance Sheet shall be signed on behalf of the Board by two of the directors of the company, or, if there is only one director, by that director, and the auditors' report shall be attached to the Balance Sheet, or there shall be inserted at the foot of the Balance Sheet a reference to the report, and the report shall be read before the company in general meeting, and shall be open to inspection by any shareholder.

Any shareholder shall be entitled to be furnished with a copy of the Balance Sheet and Auditors' Report at a charge not exceeding sixpence for every hundred words.

If any copy of a Balance Sheet which has not been signed as required by this section is issued, circulated or published, or if any copy of a Balance Sheet is issued, circulated or published without either having a copy of the auditors' report attached thereto or containing such reference to that report as is required by this section, the company, and every director, manager, secretary, or other officer of the company who is knowingly a party to the default, shall on conviction be liable to a fine not exceeding fifty pounds.

It seems almost unnecessary to add that the Balance Sheet and Accounts issued should be copies of those to which the auditors' report has actually been attached, but directors have been known, quite in good faith, to issue a *summarised* form of Balance Sheet bearing the auditors' report, although the report itself was actually attached to a *detailed* Balance Sheet.

NOTE.—It is usual to mention in the report that the stock on hand is as taken and valued by the company's officials.

Quorum at Shareholders' Meetings.—One cannot constitute a quorum. A representative shareholder appointed under Section 68 of the Companies (Consolidation) Act, 1908, may be taken into account in forming a quorum. *Re Kelantan Coconut Estate, Ltd. & Reduced* (64 S.J. 700).

The articles relating to matters common to all audits having now been completed, the remainder of the series will be restricted to a consideration of points arising in various classes of audits, leaving it to the student to compile for himself a complete notebook applicable to the individual case. (See "The Note Book" in December 1920 issue.)

Municipal Finance.—IV.

By J. H. McCall, F.S.A.A.

It has been shown that capital expenditure will involve a Corporation in certain financial difficulties connected with the raising of necessary moneys. The following article deals with some of the further financial problems consequent upon the liability of the Corporation to redeem the debt created.

The Redemption of Debt.

It must be remembered that all loans must be redeemed at some definite time. There are various ways in which the provision for redemption may be made, and these can be considered from the standpoint of their relative economic merits. In all cases the period in which each loan must be redeemed or during which its redemption must be provided for is given in the sanction authorising the loan. Consequently, as each loan is raised, a liability is placed upon the Corporation which must either fall upon the Revenue Account of the trading undertakings concerned, or the Rating Funds.

Sanction Periods.

Upon application of the Corporation, the proper Government Department concerned, after due consideration, will sanction the amount of money which may be raised by way of loan, and it inserts, as a condition of the sanction, the period in which the loan must be repaid or adequate provision made for its redemption. This period may be a long one, say 80 years, or a short one, say five years, and generally is supposed to have some relationship to the probable life of the asset or works. It is assumed, for instance, that a constructional work on a highway may last about ten years, and therefore it is reasonable to make the actual ratepayers for the next ten years pay one-tenth of such cost. When we consider what is involved in the repayment of loans, we shall be able to judge how far this argument is sound. It does seem, however, that posterity is bound to pay its fair share, and something in addition, which is varied according to the measure of financial intelligence of the advisers of that particular Corporation. If this is true, then it is as well to consider the whole question of loan repayments according to the different methods—whether we are financing for this generation or the next.

Stock Redemption.

The issue of stock is a method of borrowing money through the medium of the Money Market for the purposes of various sanctions. The money is amalgamated and carried to the credit of a Stock Fund, which can be applied to the purposes of the sanctions. The lenders who contribute to the stock are called stock-holders. The stock generally is redeemable after a certain date, and must be redeemed at some fixed future date. It is important to remember that this date of redemption has nothing whatever to do with the loan sanction periods for the capital

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works to which the proceeds of the stock issue is applied. The Corporation borrows from stock-holders, and must be prepared to repay them at a certain date, and for that purpose may borrow, if it has the requisite borrowing power. The proceeds of the stock issue are carried to a Loans Fund, which allocates to the trading undertakings or Rating Funds moneys which may be borrowed under sanction. The undertaking or fund which so borrows from the Loans Fund must repay such amount borrowed to the Loans Fund within the period of the sanction. For instance, if the Corporation raised £500,000 stock redeemable in 20 years, and applied the whole of such issue to the electricity undertaking, for purposes which were sanctioned with a 25 years period, the Electricity Fund would repay, by the Sinking Fund method, an annual sum which would, with its accumulations from investments at a certain rate, be sufficient to repay such sum borrowed at the end of 25 years. It will be seen then that in 20 years the redemption of the stock would have to be partly met out of fresh borrowings. It is not intended here to do more than point out that periods for repayments of loans for certain sanctions have nothing whatever to do with the date of redemption stipulated for stock issues. From the standpoint of loan repayments, the Stock Loans Fund should be considered as a lender to the Corporation.

Long versus Short Terms.

The period of repayment is decided by the Government Department concerned; but it is usual for the borrowing Corporation to ask the Ministry concerned to allow them the longest period possible. This request is so general that it would cause considerable surprise to many if it were ever questioned. It is our duty, however, to question it, and ask why it is that Corporations ask for the longest terms. I think we may be safe in assuming that long terms are asked for mainly because the immediate effect upon the rates is lighter, and it looks cheaper. It will be found on examination that the longer the term the more the actual cash that is extracted from the ratepayers, for two reasons:—

First, the lengthened period involves larger sums on account of interest; and secondly, the argument has a pernicious influence inasmuch as schemes are often adopted which, if presented in their true colours, would be abandoned as financially unsound.

Apart from these considerations, the long term and the short term are financial factors which must be taken into consideration when reviewing the relative merits of the methods of repayment.

The Methods of Repayment.

- (1) The Instalment System, by equal yearly or half-yearly instalments of principal, with interest on the amount of the loan outstanding from time to time.
- (2) The Annuity System, by equal yearly or half-yearly sums of principal and interest combined throughout the loan period.
- (3) The Sinking Fund System, by setting aside annually a sum of money to accumulate at a fixed rate of compound interest to redeem the debt within the period prescribed for the repayment of such debt.

The first two methods are adopted in relation to loans borrowed on mortgage, and the third one is the method adopted for the redemption of loans applied out of stock issued; but there is no reason why it should not as a method be adopted for the redemption of mortgages, although this is not usual.

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In order to illustrate the financial results of each method the following statement is given, showing the repayment of a loan of a thousand pounds borrowed at six per cent. by the various methods and for various sanction periods :—

Repayment of a Loan of £1,000 borrowed at 6 per cent. and Repaid within the periods shown. Sinking Fund accumulating at 3½ per cent.

ANNUAL AND TOTAL COST.

Sanction Period	Instalment Method (annual instalments and annual interest)			Annuity Method (yearly payments principal and interest)		Sinking Fund Method (yearly rests. S. Fd. contributions and int. on loan)	
	Annual cost		Total cost	Annual cost	Total cost	Annual cost	Total cost
5 years ..	£ 260 varying to £ 112	£	1,180	£ 237	£ 1,187	£ 246½	£ 1,232
10 " ..	160 " 106	£	1,330	136	1,559	145	1,452
20 " ..	110 " 53	£	1,630	87	1,744	95	1,997
40 " ..	85 " 26½	£	2,230	66	2,658	72	2,873

It will be seen that the shorter the loan period the heavier the annual charges, but when it is considered in the light of total cost, it would seem to be a sounder proposition to pay slightly more each year for the shorter period. It will be noticed that the cost to the ratepayers of works, the repayment of which is spread over 40 years, is double the burden which will be placed upon them if 10 years were given. The various methods are shown in contrast. The fixed instalment method is the cheapest, but the annual charge is heavier in the first years, and there are good reasons why this should be so in the trading undertaking.

The Annuity System is the one generally adopted by smaller Corporations on account of its simplicity; loans are taken up on mortgage to be repaid on the Annuity System during the exact period of the sanction.

The Sinking Fund System is more complex; a considerable amount of bookkeeping is entailed, and it involves the investing from time to time of the accumulated funds. There is one great advantage in connection with it which most authorities would be glad to avail themselves of at the present time—that of providing available funds, which, instead of being invested in trustee securities, may be applied to fresh capital purposes.

The wise man counts the cost before building the tower; municipalities build first without regard to cost. It must be pointed out, however, that without recourse to borrowings it would be impossible for Corporations to make improvements on any large scale. It does not appear to be sound finance to borrow for every conceivable object simply because it is possible to obtain a sanction. The amounts borrowed are frequently less than the product of a farthing rate. The very word "sanction" seems to imply to some minds encouragement and permission to spend the money. It would seem that economy must follow the lines of first considering the cost, the relative merits of each purpose, the amount of loan required, the time for repayment, and the method to be adopted.

Income Tax Practice.—XI.

The question of capital does not relevantly affect Income Tax except in regard to what constitutes a charge against capital instead of revenue, or to what is a capital profit or a trading profit. These points have been dealt with. For E.P.D., however, the matter is of much greater importance, as the amount of the liability is directly affected by variations of capital, so that it is necessary to consider capital in detail.

Capital and E.P.D.

In the first place, the general principle is that :—

(a) The pre-war standard may be taken as a percentage on the capital in lieu of the *profits* pre-war standard if it gives a larger standard.

(b) Increase of capital gives a reduction of assessable profits and decrease an increase.

The bases of the above are :—

(1) The average capital of the two years forming the pre-war *profits* standard, when such a standard is adopted, is taken as the pre-war standard of capital, and the increases or decreases in the Accounting Periods calculated on that pre-war basis.

(2) When a *percentage* standard is taken, the basis is such percentage standard, which latter is based on the capital at the end of the last pre-war trading year, or rather as at the commencement of the first Accounting Period.

Now, in the case of a business which was not in existence in pre-war times or which had not a full year's pre-war trading, a profits standard does not apply, and a percentage standard had to be adopted.

The 1915 Act provided that the percentage standard should be calculated at 6 per cent. for companies, and 7 per cent. for other businesses. For Accounting Periods ending after 31st December 1916, the latter became 8 per cent. It should, however, be noted that, where there is no power to take a *profits* standard owing to lack of the requisite pre-war trading, the percentage standard is calculated at the rates for *increased* capital given below.

For Accounting Periods ending after 31st December 1916, the rates for *increased* capital are 9 per cent. and 11 per cent. respectively, and for periods ending after 31st December 1919 11 per cent. and 13 per cent. For the latter periods, *private* limited companies have the larger rate. The *decreased* capital rates are unaltered.

Up to 31st December 1919 the percentage standard for a business with a year's pre-war existence is calculated on the average capital during each Accounting Period without any separate allowances for increased capital, but with periods ending after that date the standard is, by the 1920 Act, the capital of the first trading year, and the allowance for increased

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capital is made. The effect of this is that the allowance under Section 26 (4) of the 1916 Act where profits did not exceed £2,000 is increased. For the periods ending after 31st December 1919 the £2,000 is increased to £4,000, and the pre-war standard limit from £500 to £2,000. Assume that the profits of the year to 31st December 1920 are £3,800, and the percentage standard £780 with capital figures as follows:—

1st Accounting Period—1915—£6,000.
 „ „ —1920—£15,000.

Now, the profits under Section 26 (4) are *after* adjustment for variation of capital, so that the allowance in the above example would be £274, arrived at as follows:—

Profits—1920	£	3,800	
Less Increased capital £9,000 at 13%		1,170	
		2,630	
Less P.W.S. £6,000 at 13%		£ 780	
Allowance		200	
Section 26 (4)— $\frac{1}{5}$ (4,000 — 2,630)		274	
		1,254	
		60% 1,376	
		£825	

Under the procedure for periods prior to 1920 the allowance would be calculated by taking the profits *before* allowing for increased capital.

The calculation of capital is covered by the following provisions:—

- (1) Assets acquired by purchase are to be taken at *cost* as written down for proper wear and tear.
- (2) Debtors at the nominal figures, less only any reduction which has actually been allowed for income-tax.
- (3) Assets not acquired by purchase are to be taken at their value when they become assets.
- (4) Where shares have been allotted in payment, the value of the shares (i.e. also of the assets) at the time of acquirement by the company is adopted, except that no part of such shares shall be treated as capital, in so far as it relates to goodwill, if such shares are allotted to the late proprietor, and he is practically the sole shareholder.
- (5) Debts, loans, debentures, and other liabilities are to be deducted.
- (6) Investments are not Excess Profits Duty capital, except where the company's business is mainly that of making investments.

Succession.

A limited company is a distinct legal entity, so that, where a company is liquidated and the assets acquired by another company, the latter company can base its capital on the values of the assets when they were acquired from the old company, but only if the new company adopts a percentage standard, and does not claim the old company's profits standard as being a succession. Paragraph 5 of Part 2 of the Fourth Schedule to the 1915 Act allows a successor to adopt the predecessor's profits standard, but only if the business is treated "as if the trade or

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business had not changed ownership," in which case the new company would have to treat its capital figures as they would have been treated for Excess Profits Duty if the old company had continued.

Assume that A. Ltd. was taken over by B. Ltd. at 1st January 1920, and that the capital figures were as follows :—

A. Ltd. at 1st January 1920	..	..	£	25,000
B. Ltd. " " " "	..	..	£	60,000

The difference is due to improved values. A. Ltd.'s pre-war profits and capital are as follows :—

<i>Profits</i>	1911	£	2,800	<i>Capital, January</i>	1911	£	20,000
	1912		3,600		1912		22,000
	1913		2,600		1913		16,000

The profits standard would be :—

1911	..	..	..	£	2,800
1912	..	..	..		3,600
				2)	6,400
					<u>£3,200</u>

The capital standard as a basis for increased capital would be :—

1911	..	..	..	£	20,000
1912	..	..	..		22,000
				2)	42,000
					<u>£21,000</u>

Now it would be open to the new company to be treated as a succession, and the allowances would be as follows for 1920 :—

Profits standard	..	..	..	..	£	3,200
Increased capital, £4,000 at 11 per cent.						440
						<u>£3,640</u>

Treated as a new company, the allowances would be :—

Percentage standard, £60,000 at 11% = £6,600

Where the profits standard of the old company was a good one, it is generally better to be treated as a succession, but this is purely a matter of figures, and each case should be tested by both methods.

EDITORIAL.

Non-Disclosure of Material Risks.

The two cases on which we are about to comment illustrate the well-known principle in the insurance law that all material circumstances affecting the risk should be disclosed. The principle is not peculiar to insurance law, but is applicable to contracts generally, though possibly in insurance, particularly marine insurance, relief may be more readily granted to the party who proves non-disclosure. The first case we propose to notice is that of *Thomas Cheshire & Co. v. Vaughan Bros. & Co.* (149 L.T.J. 386). The plaintiffs were in the habit of insuring profits which they expected to make by warehousing cargoes coming from South American ports. In December 1917 they instructed defendants to insure a cargo which they expected to arrive from Iquique against all risks, including diversion. Defendants obtained a P.P.I. (policy proof of interest) policy. The cargo was diverted to an allied port, and never reached the plaintiffs, and the underwriters refused to pay the loss on the ground that the risk of diversion had not been disclosed to them. The plaintiffs then sued the present defendants for damages in respect of their negligence in not disclosing such risk as instructed. It was held that the plaintiffs were guilty of negligence, but as the policy was a gaming contract, void under the Marine Insurance Act of 1906, it was one under which plaintiffs could not, in any event, have recovered from the underwriters, even though full disclosure had been made, and, therefore, they had in law sustained no damage by the negligence of defendants. The provision of the Marine Insurance Act, 1906, referred to in the case is in the following terms :—

“ A contract of marine insurance is deemed to be a gaming or wagering contract (a) where the assured has not an insurable interest as defined by this Act, and the contract is entered into with no expectation of acquiring such an interest, or (b) where the policy is made ‘ interest or no interest,’ or ‘ without further proof of interest than the policy itself,’ or ‘ without benefit of salvage to the insurer,’ or subject to any other like term.”

It is well-known that underwriters as a matter of honour pay on P.P.I. policies, and had the risk in this case been disclosed, they would no doubt have done so. The decision given does not even indirectly give legal sanction to such a practice.

The second case we wish to note relates to a reinsurance contract, *London General Insurance Co. Ltd. v. General Marine Underwriters Association, Ltd.* (149 L.T.J. 387). On 24th September 1918, plaintiffs insured the cargo of a steamer then on a voyage from Italy to the United Kingdom. They reinsured with defendants, the reinsurance being on a lost or not lost policy. On the evening of 24th September the ship had to put in at a port *en route* with her cargo on fire, and this fire was posted on the casualty board at Lloyd's by 10 o'clock on the morning of the 25th. A casualty slip, containing the same information, was sent by Lloyd's to plaintiffs at the same time. At about 10 o'clock on the morning of the 25th plaintiffs' brokers were instructed to effect the reinsurance policy at Lloyd's, and did so with defendants at about four o'clock

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in the afternoon. The plaintiffs did not read the casualty slip sent to them by Lloyd's, and did not, in fact, know of the casualty till about two days later, and the defendants, when they underwrote the risk, were also unaware of the casualty. On being sued for a loss under the policy, defendants contended that the plaintiffs ought to have known of the casualty, and have disclosed it to defendants before the contract of re-insurance was made. The Court held that the fire was a circumstance which the plaintiffs ought to have disclosed had they known it, and if the slip had been duly attended to, as it ought to have been, the plaintiffs would have known. Therefore, they must be deemed to have known of the fire, and that in time to have communicated with defendants, before the latter underwrote the risk. The action was dismissed. We cannot see that this case was other than rightly decided. It is a good illustration of the principle of constructive notice, whereby, in regard to facts and circumstances which a party should know and act upon, he is deemed to have known and acted on them; in subsequent relations with him, the resulting effects are taken on that footing.

Prize Essay Competition.

Only five students entered for the Intermediate Competition for January, the subject for which was "The Best Diagram Illustrating the Chronological Order of Events in Voluntary Winding-up." Although a fairly intelligent understanding of the *idea* was evinced by competitors, yet in no case was the chart sufficiently elaborate to be of much real service, and the Editor regrets he is therefore unable to award a prize. He suggests, however, that the same subject should stand *again* for April, in the hope that those who competed without success will give the matter further consideration, and elaborate their original ideas much more fully, and that others who have not yet made the attempt will enter for this really useful and instructive competition. There were no entries in the Final Division. Competitors are reminded again to read the rules before posting their essays. We have been obliged on more than one occasion to disqualify competitors for failing to enclose their name and address in a *sealed envelope*. The judge does not wish to know the name of the student whose papers he is adjudicating. The subjects for March are:—Final, the best essay on "Why I wish to Become an Accountant." Intermediate, "My Opinion of the Value of *The Accountants' Journal*."

Income Tax Notes and Comments.

In this column Income-tax recent alterations of law and practice are discussed and explained and readers' queries are answered. Arrangements have been made to reply to these queries by post, the replies being published subsequently in the "Journal" under noms de plume. A stamped addressed envelope should be enclosed with the queries and the service is limited to subscribers to the "Journal."

Removal of E.P.D.

Much interest has been created by the Ministerial announcement that the Excess Profits Duty is being abolished. The exact terms of the cessation are not yet known, but the general principle is that:—

(a) The maximum length of Accounting Periods is to be seven years, that is, with a trading year ending on 30th September, the last Accounting Period would be that ending at 30th September 1920, and, with a trading year to 31st March, the last period would be to 31st March 1921.

(b) With a business which commenced after 4th August 1914, 31st December 1920 is to be the end of the last Accounting Period.

The latter provision will no doubt be in terms that only relate to the *business*, not to the owner, otherwise a business which had been converted to limited liability during the war would obtain an unfair advantage when the previous proprietors had become almost the sole shareholders. Clearly, a person who had purchased an existing business should be brought within (b), but not if he had claimed treatment as a succession, and adopted the predecessor's pre-war standard.

Schedule E.

In *Great Western Railway v. Bater*, the Court of appeal has laid down that a clerk is assessable under Schedule E, and not on the three years' average.

Professions.

A person who specialised in income-tax, and conducted a repayment agency, was held by the Court of Appeal in *Currie v. Inland Revenue* (overruling the Divisional Court), to be liable to Excess Profits Duty, as he was not exempt as carrying on a profession.

Residence Abroad.

A British subject having various English securities and scrip moves to America to join relatives. The English income from these securities does not leave England, but is utilised to maintain two invalid sisters resident in England. It is asked by "Subscriber" what tax will be payable on such income in England, and if the charge would be different were the English income *received* in America?

The income is fully liable to income-tax, except War Stocks, which carry exemption in the case of non-resident holders. The charge is not affected by non-remittance.

New Businesses.

A correspondent "Nat" asks what would be the assessments, and the corrections necessary to same, on the claim of the taxpayer to be assessed on

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the actual profits of each of the first three years of a new business in respect of which the figures are as follows :—

Year 1911	..	..	Adjusted Profits	..	..	..	£4,479
" 1912	..	..	" Loss	..	..	..	7,058
" 1913	..	..	" Profits	..	..	..	3,766
" 1914	..	..	"	..	..	..	5,826

Depreciation claims as allowed :—

1911-12	..	..	..	..	..	£2,007
1912-13	..	..	..	..	..	1,000
1913-14	..	..	..	..	..	1,842
1914-15	..	..	..	..	..	2,015

The new business referred to commenced on the 1st January 1911, and the taxpayer's trading year ends with the 31st December.

In some cases, the profits are split for adjustment so as to coincide with the fiscal year, and, on that basis, the figures would be as follows :—

Assessments.					
1910-11	¾ of £4,479 = £1,120	-	depreciation, say		
	¾ of £2,000 = £620				
1911-12	1911	£4,479	-	depreciation	£2,007
1912-13	1911	4,479	-	"	1,000
1913-14	1911	£4,479			
	1912	7,058	loss		
			Average loss		
1914-15	1911	£4,479			
	1912	7,058	loss		
	1913	3,766			
		31,187			
		396	-	depreciation	£396

Depreciation to carry forward £1,842 - 396 = £1,446

The adjustments for a new business would be as follows :—

1911-12	¾ of £4,479 - ¾ of £7,058 = £1,595	-	depreciation	£1,595
1912-13	¾ of £7,058 - ¾ of £3,766 = nil.			

There would then be the following depreciation to carry forward :—

1911-12	£2,007 - 1,595 =	£412
1912-13		£1,000
		£1,412 + subsequent years.

Professions.

A limited company consists of five shareholders trading as opticians and spectacle makers. Each shareholder is a qualified optician, and manages one of the five separate branches owned by the company. The company went into liquidation, though quite solvent, and in the statement rendered to a client of "Confucius" (one of the shareholders), a sum of £1,290 has been reserved representing liability for Excess Profits Duty. It is agreed that there is liability for Excess Profits Duty as regards the spectacle manufacturing section of the business, but it is asked if the side of the business dealing with sight testing, &c., can be regarded in the nature of a profession, and as such exempt from Excess Profits Duty. Separate records of professional charges and of trading receipts are available.

There should be no liability on the professional fees. Section 39 absolutely exempts "professions," and it was laid down in *Inland Revenue v. Ransome* that, where a limited company carries on one business, which involves manu-

Income Tax Notes and Comments.

facturing articles for which the raw material (herbs) is grown by the company, that portion of the profits derived from husbandry must be eliminated. It was also held in *Inland Revenue v. Korean Syndicate* that no liability attaches to a limited company where no liability would attach if the business were carried on by an individual.

Cottage Property.

A person whose chief source of income is cottage property states that his actual income is considerably less than the assessment of it under Schedule A. He wished to claim a repayment of tax. "Quill" asks what expenditure he would be allowed to charge against the annual rent of his property. Schedule A.

A person is desirous of having the assessment of his income under Schedule A based upon the actual cost of replacement, maintenance, insurance, management, &c. To what extent is this possible.

A claim may be made for allowance of the actual expenditure on repairs, maintenance, insurance, &c., on an average of the five preceding years. Lost rents are allowed.

Treasury Bills.

(a) Can interest on Treasury Bills be construed as "capital appreciation"?

(b) Is it provided in the Finance Act that such interest must be returned for the purpose of taxation? If so, can you give the particular reference?

(c) Will you state your opinion, and whether there has been any decision, legal or otherwise, on the point?

(a) No. They are assessable under Case 3 of Schedule D, as specifically laid down in the Courts.

(b) Yes. Case 3.

(c) The case of *Mutual Provident v. Brown* decided that there was liability under Case 3.

Residence Abroad.

A doctor, whose domicile of origin is English, has spent two years or so in Serbia, having charge of various hospitals, but working under and receiving a salary from some British Relief Fund. Last year he gave it up, returned to England, where he spent about two months, and now has accepted an appointment under the Society of Friends, who have sent him to Poland to control hospitals there. The society pay his salary into his banking account in England, and his banker makes him such remittances as he asks for. The doctor has no home here, but visited his parents on his visit last year; he has a small taxed income from investments in British companies. It is asked by "North" if:—(1) The doctor is bound to render a return of untaxed income and be taxed thereon? (2) If so, is he entitled to claim his abatements and reliefs as if he was resident in United Kingdom?

The doctor is not resident here within the meaning of the Income Tax Acts so that he is not liable on his salary. In *Pickles v. Foster* it was laid down that there was no liability on the salary of an employee of an English company, which employee was employed abroad, even though he had a residence in England, where his wife resided and where he occasionally visited. There was liability on such parts of the salary as were remitted to England or

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received here by him when on holiday. The doctor is liable on the dividends in English companies, and, being a British subject, he can claim relief, but this will depend on his total income from *all* sources, although the salary itself cannot be charged.

Married Women.

In a case referred to by "Ken," a lady with a separate income was deserted by her husband, who paid no maintenance. The desertion took place during the year of assessment, and repayment has been refused to her on the ground that the claim should be made by her husband.

The practice is not to separate the incomes unless there is a judicial separation, or the separation has been for a year or two. If there is a judicial separation the husband will be liable, and must claim for his income of the year to 5th April 1921, plus his wife's income from 6th April 1920 to October 1920, and the wife could treat her total income for the year to 5th April 1921 as being her income from October 1920 to 5th April 1921. If there is no judicial separation, and the allowance is still refused, it should be intimated to the Revenue that the claim will be produced again at a later date on proof being available that the separation has been continuous for the required period. A request should be made to be informed of the length of that period.

Government Loan Prices.

The announcement made by the Chancellor of the Exchequer regarding Excess Profits Duty is regarded as a bear point for several of the Government loans, and a financial contemporary has compiled the following table, showing the individual stocks affected.

AVAILABLE FOR PAYMENT OF						Death Duties	Excess Profits	Latest Price
Exchequer 5 per cent. 1921	..	..	..	..	..	Yes	No	99
War Loan 5 per cent. 1929-47	..	..	..	..	..	At 95 p. c.	No	85½
War Loan 4 per cent. 1929-42	..	..	..	..	..	Yes	No	96½
Exchequer 5 per cent. 1922	..	..	..	..	..	Yes	Yes	98½
National War 5 per cent. 1922 (1st Ser.)	..	..	..	..	..	Yes	Yes	98½
National War 5 per cent. 1924 (1st Ser.)	..	..	..	..	..	Yes	Yes	97
National War 5 per cent. 1927 (1st Ser.)	..	..	..	..	..	Yes	Yes	96½
National War 4 per cent. 1927 (1st Ser.)	..	..	..	..	..	Yes	Yes	95
Exchequer 3 per cent. 1930	..	..	..	..	..	No	No	78
National War 5 per cent. 1923 (2nd Ser.)	..	..	..	..	..	Yes	Yes	97½
National War 5 per cent. 1925 (2nd Ser.)	..	..	..	..	..	Yes	Yes	97
National War 5 per cent. 1928 (2nd Ser.)	..	..	..	..	..	Yes	Yes	95½
National War 4 per cent. 1928 (2nd Ser.)	..	..	..	..	..	Yes	Yes	95
National War 5 per cent. 1923 (3rd Ser.)	..	..	..	..	..	Yes	Yes	97
National War 5 per cent. 1925 (3rd Ser.)	..	..	..	..	..	Yes	Yes	97
National War 5 per cent. 1928 (3rd Ser.)	..	..	..	..	..	Yes	Yes	95½
National War 4 per cent. 1928 (3rd Ser.)	..	..	..	..	..	Yes	Yes	95
National War 5 per cent. 1924 (4th Ser.)	..	..	..	..	..	Yes	Yes	97
National War 5 per cent. 1929 (4th Ser.)	..	..	..	..	..	Yes	Yes	95
National War 4 per cent. 1929 (4th Ser.)	..	..	..	..	..	Yes	Yes	95
Funding Loan 4 per cent. 1960-90	..	..	..	..	..	At 80 p. c.	No	69½
Victory Bonds 4 per cent.	..	..	..	..	..	Yes	No	76½
Exchequer 5½ per cent. 1925	..	..	..	..	..	No	No	99½
Treasury Bonds .. .. .	..	..	..	..	..	No	No	99½

Correspondence.

Creditors' Accounts.

(To the Editor of *The Accountants' Journal*.)

SIR,—I read with interest the article by Mr. Stone under the above heading in the December issue of the *Journal*, and believing that it might be of further interest to the general reader, and profit to some who would adopt the system outlined, I venture to write further on the subject.

Similar systems are, I believe, in force in many businesses, especially where the number of transactions per creditor per year are few, and such as not to warrant separate Ledger Accounts.

As a slight amendment to Mr. Stone's system, I would suggest that, in the Accounts Payable Book, columns be provided for details of payment, thus:—

No. of A/c.	Name of Creditor	Details	Amount due £ s d	PAYMENT MADE			Analysis Columns
				Date	Cheque No	Amount £ s d	

By this method, the necessity for entering the creditor's name in the Cash Book when payment is made is avoided. The Cash Book would, of course, contain a figure representing the total payments.

As all invoices would be passed before being entered in Accounts Payable Book, there should be little trouble with accounts entered but not paid. Should such arise, the amounts would be inserted in the "Paid" column in violet ink, and totalled as "Carried forward" below the total payments, thus:—

Total payments for month	...	...	£	:	:
Carried forward ... ..	...	...	£	:	:
Agrees with total due	...	...	

The following month, these items would appear first among the accounts, preferably in a separate "Brought forward" column, to avoid confusion with the current month's figures.

Where, through returns or allowances, an amendment to an amount due becomes necessary after entry, this could best be provided for by insertion of a red ink figure in paid column, and a journal entry:

Total Creditors' Account	Dr. £	:	:	£	:	:
To Returns and Allowances Account						

With regard to the points raised by "Interested," their treatment would be:—

- (1) *Accounts containing items due on different dates.*

Get separate invoices for the later items, and make arrangements for raising at proper time.
Cross reference all invoices.

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(2) *Contra against sales.*

Insert in paid column: "Sales Led. fo. £ : : " and total the items separately at foot.

Journal entry:

Total Creditors' Account.	Dr.	£ : :	
Sales Ledger.	A. B. & Co.		£ : :

(3) *Allowance by creditor after payment.*

Where no further account arises from which this could be deducted, the only course seems to be to open a Ledger Account for this particular case.

(4) *Intermediate Cash Payments.*

These could be entered in the Accounts Payable Book as and when paid. They would appear in the grand total in Cash Book.

Yours truly,

Kilmarnock, 8th February 1921. ROBERT ROWAND, F.F.T.Com.

Queries and Replies.

(Correspondents who wish to make use of this column are requested to write their queries on one side of the paper only and to be as brief as possible. There is no need to enclose a covering letter if the communication is headed "Accountants' Journal, Queries and Replies column," and signed at the end with the name and address of the sender, which will not be published if the query is signed with a *nom de plume*.)

Division between Partners.

A man and his wife are in partnership. In 1917 they purchased War Savings Certificates. They now wish to withdraw same. In what proportion shall they share? 1. In proportion to which they share profits, which by the way is equal, or 2. In proportion to the amount of capital they have each in the business? —NONPLUSSED.

As the War Savings Certificates must have been purchased out of undistributed profits (i.e. if they had not been purchased, obviously the profits of the firm would have been greater, or the losses less), we think there is no doubt that the proceeds should be shared equally, as they share profits and losses equally.

The Income Tax.

Mr. Austen Chamberlain, replying to a deputation from the Federation of British Industries recently, said:—It was not possible to make a general revision of income-tax in the forthcoming Budget. He had gone as far as he possibly could this year in making an end of the Excess Profits Duty. With a Budget of £950,000,000 it was impossible to reduce the income-tax. Next financial year he had to provide for interest on the American debt, which had not borne interest since May 1919. In the coming year income-tax assessment would be on the three years' average. He hoped to get a Revenue Bill through this Session, under which the tax would be assessed on the preceding year, but it could scarcely be brought into operation this year. He thought the Federation's figure of 300 millions arrears of Excess Profits Duty slightly too large, in view of the very heavy reclamations.

Legal Notes.

By Albert Crew, Barrister-at-Law.

An up-to-date knowledge of recent decisions in the Courts is of the greatest value to accountants and business men and to students reading for their examinations. In this column are noted the salient features of the leading cases decided during the preceding month.

Bailment.

Fraudulent Pledge of Goods by Bailee.

The plaintiff handed her jewellery to M., so that he might have it valued and decide whether to offer her a loan. M., who was not a mercantile agent, fraudulently pawned the jewellery with the defendant, who acted in good faith. Afterwards M. lent the plaintiff £500 on a promissory note, it being agreed that M. should retain possession of the jewellery as collateral security. In an action by the plaintiff against the pawnbroker to recover the jewellery, the defendant pleaded that the plaintiff, by agreeing to M.'s retention of possession of the jewellery as collateral security, had pledged the jewellery with M., and that M. had pledged it with the defendant, and thereby given the defendant a title to it. It was held, that as M. acquired by the original bailment no right to hold the goods against the plaintiff, and as the subsequent transaction between the plaintiff and M. was not a valid pledge because the goods were not at the time, and had never since been in the actual or constructive possession of the alleged pledgor or pledgee, the defendant never acquired any right to hold the goods against the plaintiff, and accordingly judgment was given for the plaintiff for the return of her jewellery. *Blundell-Leigh v. Attenborough* (1921, 37 T.L.R. 210).

Carriage of Goods.

Claim Against Shipowner for Short Delivery.

In an action against a shipowner for short delivery of cargo the owner of the cargo must succeed if he proves the delivery of a less number, weight or measure of goods than that admitted on the bill of lading, unless the shipowner can establish that the number, weight, or measure admitted on the bill of lading is wrong. The shipowner can discharge the onus which is upon him either by direct evidence, showing that a mistake has been made in the tallies from which the bill of lading is made out, or by indirect evidence showing beyond reasonable doubt that none of the goods was lost or stolen after receipt by him, and that he has delivered all received. *Sanday v. Strath Steamship Co.* (1921, 37 T.L.R. 211).

Bill of Lading—Received for Shipment.

A shipping instrument, known in the commercial world as a bill of lading, is not prevented from being a bill of lading within the Admiralty Court Act, 1861 (which provides that the High Court of Admiralty shall have jurisdiction over any claim by the owner or consignee or assignee of any bill of lading of any goods carried into any port in England or Wales in any ship for damage to the goods), by the fact that such bill of lading is framed in the form "received for shipment" instead of "shipped on board," or by the fact that the obligation is not merely to carry by the named ship, but to carry by the named ship or by some other vessel. *The Ship Marlborough Hill v. Alexander Cowan & Sons* (1921, 37 T.L.R. 190).

Master's Maritime Lien for Wages.

The maritime lien of a shipmaster for wages takes priority over the claim of a judgment creditor who is in possession of the *res* by reason of execution levied by the sheriff under a writ of *fi. fa.* *The James W. Elwell* (1921, 37 T.L.R. 178).

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False Account of Weight with Intent to Avoid Payment of Tolls.

The Railway Clauses Consolidation Act, 1845, Section 99, provides that if a person, being the owner or having the care of any carriage or goods passing or being upon a railway, give to the collector of tolls or other officer or servant of the company a false account with intent to avoid the payment of any tolls payable in respect thereof, he shall, for such offence, forfeit to the company a certain sum of money. It was held that an offence under that section was committed by a consignor who made to the railway company any false statement with regard to the goods to be carried, including a false account as to the weight of the goods in order to avoid the payment of any tolls payable in respect thereof. *London and North-Western Railway Co. v. Rickerby* (1921, 1 K.B. 231).

Companies.

Payment of Remuneration of Directors.

Articles provided that the remuneration of the directors shall be at the rate of £150 per annum, and such further sum (if any) as shall be voted to them by the company in general meeting, and such remuneration shall be divided amongst the directors as they shall determine, or failing agreement equally. Sections 2, 3, and 5 of the Apportionment Act provide that all annuities, periodical payments, &c., in the nature of income shall be considered as accruing from day to day, and shall be apportionable in respect of time accordingly, that the apportioned part of any such annuity or other payment shall be payable or recoverable in the case of a continuing annuity or other such payment when the entire portion of which such apportioned part shall form part shall become due and payable, and not before, and that in the construction of the Act the word "annuities" shall include salaries and pensions. It was held that where a contract is made by a person with a company, that he shall be a director of the company, and receive a fixed sum per annum, this sum is salary within the meaning of Section 5 of the Apportionment Act, 1870, and he is entitled to an apportionment thereof for any less period than a year during which he is on the board as a director. *Salton v. New Beeston Cycle Co.* (1899, 1 Ch. 775), *In re Central De Kaap Gold Mines* (69 L.T., Ch. 18), and *In re London & Northern Bank* (*McConnell's case*), (17 T.L.R. 188), reviewed, and not followed. *Moriarty v. Regent's Garage & Engineering Co.* (1921, 37 T.L.R. 180).

Disclaimer by Trustee in Bankruptcy of Shareholder. Right to Vote in Respect of the Shares.

The registered holder of shares in a limited company, who had mortgaged them, and had also executed a blank transfer in favour of the mortgagees, was adjudicated bankrupt. His trustee in bankruptcy disclaimed all his interest in the shares. The bankrupt's name was left on the register as the holder of the shares. It was held that a trustee in bankruptcy may disclaim the bankrupt's interest in unsaleable or non-readily saleable encumbered shares, especially if there is difficulty or expense in ascertaining the value of the bankrupt's interest in them, and that although the bankrupt's beneficial interest in the shares ceased on disclaimer, yet as he remained on the register he had the right to vote in respect of them, the right being exercisable at the dictation of those beneficially interested in the shares, such right of the bankrupt not being destroyed by the mere fact of his being adjudicated bankrupt. *Wise v. Lansdell* (1921, 37 T.L.R. 167).

Vesting Order in Custodian and Company Shares.

When the custodian of enemy property has in pursuance of a vesting order, giving him the right to receive all dividends due and to accrue due, been registered as the owner of shares held in a company by enemy shareholders, a condition that dividends due to enemy shareholders should be paid out of the assets in an enemy country is not binding on the custodian with respect to dividends directed to be paid after the date of the vesting order, and the company is liable to pay to him all dividends declared on such shares since that date. Under Section 2 of the Trading with the Enemy Amendment Act, 1914, the same rule applies to dividends declared on such shares between the dates of the passing of that Act and the date of the vesting order. *In re Aramayo Francke Mines* (1921, 37 T.L.R. 340).

Legal Notes.

Contract.

Agreement for Partial Sale of Copyright and to Offer to Publishers the Next Three Books.

An agreement by a novelist to offer her next three books to her then publishers is not a contract of personal service, but is similar in principle to a contract to sell the products of labour or industry. A partial assignment of copyright is not a mere personal contract, but confers certain rights of property capable of being protected by injunction. An option to become entitled to an interest in copyright is an interest in copyright in the same way that an option to purchase land or acquire shares is an interest in the land or shares. The part owner of a copyright has a right to protect it against another, who alleges that he has purchased it from a common vendor. *Erschine Macdonald v. Eyles* (1921, 65 S.J. 275).

Extent of Contractual Obligation of Restaurant Keeper.

The contract between a restaurant keeper and his customers contains an implied warranty by the restaurant keeper that the premises shall be as safe as reasonable care and skill can make them, but he is not liable for defects which could not have been discovered by the exercise of reasonable care and skill on the part of anyone concerned. While the plaintiff was eating a meal of stewed eels, a portion of the ceiling fell and injured her, and she was held entitled to damages therefor. *Brannigen v. Harrington* (1921, 37 T.L.R. 349).

Landlord and Tenant.

Increase of Rent (Restrictions) Act, 1920, and Reasonable Accommodation.

Reasonable accommodation in Section 5 of the Act of 1920 (*supra*), means sufficient for those who live with the tenant, and may include lodgers; and the amount of furniture that the tenant may need is for the discretion of the judge in the circumstances. On a claim in the County Court for recovery of possession, a claim was added for mesne profits accruing after the expiration of notice to quit; judgment was given for the defendant on the claim for possession. *Chiverton v. Ede* (1921, 37 T.L.R. 242).

Former Tenant who has Served in the Forces.

Where a tenant of a dwelling-house has given up occupation in consequence of his service with the Forces during the war, and the landlord has himself entered into occupation, Section 5 of the Increase of Rent, &c. Act, 1920, does not entitle such former tenant to recover possession of the dwelling-house from the landlord. *Goodwin v. Rhodes* (1921, 37 T.L.R. 315).

Scheme of Reconstruction in the Public Interest.

A proposal by the landlord of a stable and warehouse to convert them into a training school for girls to be employed in his factory, is not "a scheme of reconstruction or improvement desirable in the public interest" within the meaning of that expression in Section 13 of the Increase of Rent, &c., Act, 1920. *Mitchell v. Townend* (1921, 37 T.L.R. 298).

Order for Possession for Business Premises.

Where the occupying tenant of a dwelling-house carries on the business of letting lodgings therein, the premises are business premises within Section 12 of the Increase of Rent, &c. Act, 1920, and therefore proof by the landlord under Section 5 that he requires the premises as a residence for himself, and that alternative accommodation is available for the tenant, will not entitle the landlord on the expiration of the tenancy to an order for possession. *Tompkins v. Rogers* (1921, 37 T.L.R. 299).

Restrictions on Premiums.

An assignment of the residue of the term of a lease is not a grant of a tenancy within Section 8 (1) of the Increase of Rent, &c., Act, 1920, which prohibits the requirement of payment as a condition of the grant of a tenancy of a dwelling-house to which the Act applies. *Mason, &c. v. Harris* (1921, 37 T.L.R. 334).

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Recovery of Possession and Meaning of "Rateable Value."

When a house is let at a rent less than two-thirds of the rateable value, the Increase of Rent, &c. Act, 1920, does not apply to that tenancy at all (Section 12 (7) of the Act), but if the tenant should sublet the house at a different rent, the Act would apply to that sub-tenancy. The words "rateable value" mean the net annual value, and not the gross estimated rental of the premises. When in an action to recover possession of premises alleged to be within the protection of the Act, a breach of covenant or of an obligation under the tenancy agreement is proved against the tenant, the only question which is relevant to be considered is whether the circumstances are such as to make it reasonable to make an order for possession, and it is irrelevant to consider the question of alternative accommodation. *Waller v. Thomas* (1921, 37 T.L.R. 325).

Notice to Quit given by Immediate Tenant, and Position of Sub-Tenant.

A tenant in July 1919 gave a valid notice to quit the premises on 25th March 1920. On 2nd August 1919 the tenant sub-let the premises for the residue of his tenancy up to 25th March 1920. On this latter date the sub-tenant refused to give up the premises on the ground that the term "tenant" in Section 5 of the Increase of Rent, &c. Act, 1920 (Section 5 provides protection for a tenant from ejection from a dwelling-house except, *inter alia*, when the tenant has given notice to quit), included sub-tenant, and that as he (the sub-tenant) had not given notice, the landlord could not claim possession of the premises under Section 5 of the above Act as against him. It was held that the term "tenant" in Section 5 of the Act of 1920 (*supra*), meant the immediate tenant, and not a sub-tenant; and that as notice had been given by the immediate tenant, the landlord was entitled to possession. *Hyllon v. Heal* (1921, 65 S.J. 311).

Power of Underlessor to Determine Underlease.

The motive which prompts an underlessor to exercise a contractual right to determine the tenancy, cannot be taken into account, and its exercise will not be restrained simply because it works a hardship on the underlessees. *Batty v. Vincent and City of London Real Property Co.* (1921, 65 S.J. 311).

Moneylenders.

Proof of Registration.

In an action in the County Court in a money-lending transaction, the defendant did not give notice of his intention to rely on the defence that the plaintiff was not registered as a money-lender. At the trial, the defendant asked no question on this point. The Judge, however, asked a witness, an agent of the plaintiff, whether the plaintiff was registered, and he said he was, and produced a copy of the particulars alleged to have been furnished by the plaintiff on registration, and which had been obtained from the registration authorities in London. In reply to a question by the plaintiff's solicitor, the witness said he knew that the plaintiff was registered. The Judge held that the registration was not proved, and entered judgment for the defendants. It was held, on appeal, that the Judge was not justified in raising the point, as the contract showed no illegality *ex facie*, and the plaintiff had not admitted that the defendant alleged non-registration. *Lipton v. Powell* (1921, 65 S.J. 275).

Wills and Executors.

Informal Revocation of Soldier's Will.

The will, whether formal or informal, of a soldier or sailor on active service can be revoked by any expression of his intention to revoke it, however informal, and without the making of any new will or codicil. This was the rule at common law before the Wills Act, 1837, and this exemption from the ordinary law of execution contained in Section 11 applies equally to revocation. Section 11 provides that any soldier, &c., may dispose of his personal estate as he might have done before the making of the Act of 1837. As no formalities are required for the execution of a soldier's will, none is required for its revocation. *In re Gossage* (1921, 65 S.J. 274).

Legal Notes.

Will of a Domiciled Scotswoman proved in England.

An English Court can authorise trustees of the will of a domiciled Scotswoman proved in England to apply to the Court of Session (Scotland) for leave to sell, the English Court having construed the will as giving the trustees an implied power of sale, and being of opinion that a sale would be beneficial and in the interests of infants. *In re Georges* (1921, 65 S.J. 311).

Devise of Real Estate and Bequest of Personality.

A testator, whose will was made in 1893, and who died in 1897, gave all his *personal property* in one direction, and all his *real estate and property* in another direction. He had no real estate, strictly so-called, at the date of his will, or at the time of his death, but he had two farms, each of which he held for the residue of a long term of years—one being created in the 17th century, and the other in the 19th century. The question for determination was whether the leaseholds passed under the devise of real estate or passed as personal property. It was held that Section 26 of the Wills Act, 1837, did not apply (which provides that a devise of the land of the testator, and any other general devise which would describe a customary or leasehold estate if the testator had no freehold estate which could be described by it, shall be construed to include the customary and leasehold estates of the testator). The general principles of *Rose v. Bartlett* (1631, C.V. Cas. 292) (where a man had lands in fee simple, and also lands held for a term of years, and devised by his will all his lands and tenements, the fee simple lands only passed by the will, and not the leaseholds; but if he had leasehold lands, and none held in fee simple, the leaseholds would then pass, for otherwise the will would be merely void. By early law, freeholdings were the only true property in land, and when a man spoke of his lands, tenements, or hereditaments, it was intended, *prima facie*, that he referred to his freeholds only), were applied and the law laid down in *Rose v. Bartlett* was not, so far as related to the present case, altered by Section 26, and accordingly the leaseholds passed under the general devise of real estate. *In re Holt* (1921, W.N. 41).

Bequest of Farming Stock for Life, and keeping it up at Equal Value.

A testator, being yearly tenant of a farm, gave all his farming stock to his wife for life, "in order that she may, if she so desires, carry on my farming business, she maintaining and keeping such stock at equal value, or as near thereto as circumstances will permit," and after her death to a nephew absolutely. At testator's death in 1894 the stock was valued at £407 12s. 6d. And at the death of the widow in 1919 the stock on the farm realised £1,349 1s. 11d. It was held that in a bequest for life of farming stock there is an obligation of, but limited to, keeping it up for the benefit of the remainderman, and that the £1,349 1s. 11d., less expenses and cost of summons to determine rights, was divisible between the estates of the widow and the nephew (who had died) in the proportion of £941 9s. 5d. to £470 12s. 6d. *In re Powell* (1921, 1 Ch. 178).

Duly Executed Will Subsequently Destroyed.

A. duly made his will in February 1913, and died in September 1919. After his death it could not be found, but amongst his papers was found an envelope marked "My last will, made 26th January 1918," and also "one made February 1913 destroyed." In the envelope was a testamentary writing dated 26th January 1918, apparently based in form on the will of February 1913, and signed by A., but not witnessed. A draft of the will of February 1913 was produced by the testator's solicitors, and put in evidence as proving the contents of the destroyed will. In an action by the executrix of the will of February 1913, claiming probate in solemn form of the contents thereof as proved by the said draft, it was held that the destruction of the will of February 1913 was conditional on the testator's belief that the testamentary writing of 26th January 1918 would be effective as a will, that the testamentary writing was not effective as a will, and that therefore the doctrine of dependent relative revocation applied, and that the contents of the will of February 1913, as proved by the said draft thereof, should be admitted to probate in solemn form. *West v. West* (1921, 2 I.R. 34).

Monthly Calendar.

March 2nd, Wednesday.—GLASGOW CHARTERED ACCOUNTANTS STUDENTS' SOCIETY.—Lecture, "Insurance Companies' Accounts and Audit," by Professor T. P. Laird, C.A., 7.30 p.m., at 218 St. Vincent Street, Glasgow.

INDUSTRIAL LEAGUE AND COUNCIL.—Lecture, "Scientific Management as a Factor in Production," by Mr. Robert Stelling, 7.30 p.m., at Caxton Hall, Westminster.

SHEFFIELD CHARTERED ACCOUNTANTS STUDENTS' SOCIETY.—Lecture by Mr. C. S. Dickie.

March 3rd, Thursday.—LEEDS AND DISTRICT CHARTERED ACCOUNTANTS STUDENTS' ASSOCIATION.—Joint Debate with Leeds Law Students' Society, 5.30 p.m., at 7 Bond Place, Leeds.

LIVERPOOL CHARTERED ACCOUNTANTS STUDENTS' SOCIETY.—Lecture, "Local Finance, Accounts and Audit," by Mr. J. J. Clarke, M.A., 5.30 p.m., at 13 Union Court, Liverpool.

March 4th, Friday.—BIRMINGHAM CHARTERED ACCOUNTANT STUDENTS' SOCIETY.—Lecture, "Branch Accounts," by Mr. W. H. Castle, 6.30 p.m., at 8 Newhall Street, Birmingham.

March 7th, Monday.—BIRMINGHAM AND MIDLAND SOCIETY OF INCORPORATED ACCOUNTANTS AND STUDENTS' SOCIETY.—Lecture, "Economics," by Mr. A. P. Bardell, at The Library, County Chambers, Corporation Street, Birmingham.

LONDON CHARTERED ACCOUNTANT STUDENTS SOCIETY.—Lecture, "Banking and Foreign Exchange," by Mr. T. E. Gregory, B.Sc., 6 p.m., at Institute of Chartered Accountants.

March 8th, Tuesday.—KINGSTON-UPON-HILL CHARTERED ACCOUNTANTS STUDENTS' SOCIETY.—Lecture, "Auditing," by Mr. P. H. Lambert, A.C.A., 6.30 p.m., in Incorporated Law Society's Hall, Bowlalley Lane, Hull.

LONDON CHARTERED SECRETARIES STUDENTS' SOCIETY.—Joint debate with Law Students' Debating Society.

March 9th, Wednesday.—GLASGOW CHARTERED ACCOUNTANTS STUDENTS' SOCIETY.—Lecture, "Voting in Sequestration," by Mr. Hugh R. Buchanan, LL.B., 7.30 p.m., at 218 St. Vincent Street, Glasgow.

INDUSTRIAL LEAGUE AND COUNCIL.—Lecture, "The Ex-Service Man and His Reinstatement in Industry," by Mr. C. Latham, A.L.A.A., 7.30 p.m., at Caxton Hall, Westminster.

LONDON CHARTERED ACCOUNTANT STUDENTS SOCIETY.—"Ten-minute Papers," 6.30 p.m., at Institute of Chartered Accountants.

NOTTINGHAM CHARTERED ACCOUNTANTS STUDENTS' SOCIETY.—Lecture, "Receivers and Managers," by Mr. W. Marshall Freeman.

SHEFFIELD CHARTERED ACCOUNTANTS STUDENTS' SOCIETY.—Lecture, "Some Notes on the Voluntary Liquidation of Insolvent Companies," by Mr. H. Edgar Jenkinson, F.C.A.

YORKSHIRE DISTRICT SOCIETY OF INCORPORATED ACCOUNTANTS.—Lecture, "Cost Accounts," by Mr. E. Miles Taylor, at Leeds.

March 10th, Thursday.—INDUSTRIAL LEAGUE AND COUNCIL (DEPTFORD BRANCH).—Lecture, "Health in Industry," by Dr. E. Halford Ross, 7.30 p.m.

March 11th, Friday.—BIRMINGHAM CHARTERED ACCOUNTANT STUDENTS' SOCIETY.—Members debate, 6.30 p.m., at 8 Newhall Street, Birmingham.

MANCHESTER DISTRICT SOCIETY OF INCORPORATED ACCOUNTANTS.—Mock Shareholders' Meeting," 7 p.m., at St. Mary's Parsonage, Deansgate, Manchester.

SOUTH OF ENGLAND DISTRICT SOCIETY OF INCORPORATED ACCOUNTANTS.—Lecture, "Executorship Law," by Mr. C. A. Sales, LL.B., A.S.A.A.

SOUTH WALES AND MONMOUTHSHIRE CHARTERED ACCOUNTANTS STUDENTS' SOCIETY.—Lecture, "An Elementary Lecture on the Value of Economics to the Accountant," by Mr. Percival E. Robathan, C.A., 7.30 p.m., at 5 High Street, Cardiff.

March 12th, Saturday.—YORKSHIRE STUDENTS' SOCIETY OF INSTITUTE OF MUNICIPAL TREASURERS AND ACCOUNTANTS.—Lecture, "Accounting in Connection with Short Term Mortgages," by Mr. R. D. Lambert, F.S.A.A., 3.30 p.m., at Manchester.

March 14th, Monday.—BIRMINGHAM AND MIDLAND SOCIETY OF INCORPORATED ACCOUNTANTS AND STUDENTS' SOCIETY.—Lecture, "Income Tax and Super Tax," by Mr. A. C. Ridgway, F.C.A., at the Library, County Chambers, Corporation Street, Birmingham.

Monthly Calendar.

LONDON CHARTERED ACCOUNTANT STUDENTS SOCIETY.—Lecture, "Banking and Foreign Exchange," by Mr. T. E. Gregory, B.Sc., 6 p.m., at Institute of Chartered Accountants.

MANCHESTER CHARTERED ACCOUNTANTS STUDENTS' SOCIETY.—Students' Debate.

WEST OF ENGLAND DISTRICT SOCIETY OF INCORPORATED ACCOUNTANTS.—Lecture, "Elements of Statistics," by Mr. Hubert Phillips, B.A., 5.30 p.m., at Royal Hotel, College Green, Bristol.

March 15th, Tuesday.—LONDON CHARTERED SECRETARIES STUDENTS' SOCIETY.—Joint Debate with Incorporated Accountants Students' Society, 6.30 p.m., at Winchester House, London, E.C. 2.

March 16th, Wednesday.—INDUSTRIAL LEAGUE AND COUNCIL.—Lecture, "Some Obligations of Industry to Labour," by Mr. T. W. Casey, M.P., 7.30 p.m., at Caxton Hall, Westminster.

LONDON CHARTERED ACCOUNTANT STUDENTS SOCIETY.—Lecture, "Bills of Exchange," by Mr. J. Wylie, C.B.E., 6 p.m., at Institute of Chartered Accountants.

SHEFFIELD CHARTERED ACCOUNTANTS STUDENTS' SOCIETY.—Lecture, "Banking and the Public," by Mr. L. A. Fogg.

March 17th, Thursday.—GLASGOW CHARTERED ACCOUNTANTS STUDENTS' SOCIETY.—Joint meeting with Edinburgh Chartered Accountants Students' Society, 7.30 p.m., at 218 St. Vincent Street, Glasgow.

KINGSTON-UPON-HILL CHARTERED ACCOUNTANTS STUDENTS' SOCIETY.—Lecture, "Introduction to the Study of Economics," by Mr. Mr. G. S. Cooke, B.A., 6.30 p.m., at Incorporated Law Society's Hall, Bowldalley Lane, Hull.

LEEDS AND DISTRICT CHARTERED ACCOUNTANTS STUDENTS' ASSOCIATION.—Lecture, "The Duties and Responsibilities of a Company Secretary," by Mr. H. Edgar Jenkinson, F.C.A.

LIVERPOOL CHARTERED ACCOUNTANTS STUDENTS' SOCIETY.—Joint debate with the Liverpool Law Students' Association.

March 18th, Friday.—BIRMINGHAM CHARTERED ACCOUNTANT STUDENTS' SOCIETY.—Lecture, "Examination Hints on Law and Accounts," by Mr. W. H. Grainger, A.S.A.A., 6.30 p.m., at 8 Newhall Street, Birmingham.

March 21st Monday.—BIRMINGHAM AND MIDLAND SOCIETY OF INCORPORATED ACCOUNTANTS AND STUDENTS' SOCIETY.—Lecture, "Excess Profits Duty and Corporation Profits Tax," by Mr. A. C. Ridgway, at The Library, County Chambers, Corporation Street, Birmingham.

LONDON CHARTERED ACCOUNTANT STUDENTS SOCIETY.—Lecture, "Banking and Foreign Exchange," by Mr. T. E. Gregory, B.Sc., 6 p.m., at Institute of Chartered Accountants.

March 23rd, Wednesday.—INDUSTRIAL LEAGUE AND COUNCIL.—Lecture, "Works Committees and their Functions," by Mr. R. Young, M.P., 7.30 p.m., at Caxton Hall, Westminster.

LONDON CHARTERED ACCOUNTANT STUDENTS SOCIETY.—Lecture, "Adverse Foreign Exchanges," by Sir George Paish, 6 p.m., at Institute of Chartered Accountants.

SHEFFIELD CHARTERED ACCOUNTANTS STUDENTS' SOCIETY.—Lecture, "Some Problems on Costing," by Mr. G. S. Hattersley, A.S.A.A.

March 24th, Thursday.—NOTTINGHAM CHARTERED ACCOUNTANTS STUDENTS' SOCIETY.—Joint debate with Birmingham Chartered Accountant Students' Society.

March 28th, Monday.—WEST OF ENGLAND DISTRICT SOCIETY OF INCORPORATED ACCOUNTANTS.—Lecture, "Notes on the Chief Classes of Statistical Publications," by Mr. Hubert Phillips, B.A., 5.30 p.m., at Royal Hotel, College Green, Bristol.

March 29th, Tuesday.—KINGSTON-UPON-HULL CHARTERED ACCOUNTANTS STUDENTS' SOCIETY.—Lecture, "The Law of Contracts," by Mr. G. T. Mainprize.

March 30th, Wednesday.—INDUSTRIAL LEAGUE AND COUNCIL.—Lecture, "Industry and Its Relation to Finance," by Mr. H. G. Williams, M.Sc., 7.30 p.m., at Caxton Hall, Westminster.

LEEDS AND DISTRICT CHARTERED ACCOUNTANTS STUDENTS' ASSOCIATION.—Lecture, "Inflation of Currency," by Professor J. Harry Jones, M.A., 6.30 p.m., at 7 Bond Place, Leeds.

Students' Society Notes.

The Chartered Accountant Students Society of London.

The Spring Session programme opened on 9th February with a discussion on Questions set at the recent Institute Examinations. Mr. J. K. Carpenter, A.C.A., opened the discussion on the Final Questions, and Mr. L. W. Wheal the Intermediate. The questions selected included two on "Costing" from the Intermediate and Final Accounts papers, and others from the Auditing papers. Mr. A. E. Cutforth, F.C.A., presided at the meeting.

A lecture, "Paper Money Exchanges and the Gold Standard" was delivered on Wednesday, 16th February, by Mr. F. W. Hirst (Editor of *Common Sense*). Sir William Plender, G.B.E., F.C.A., took the chair, and presided over a meeting of about 210 members.

The meetings for March are as follows:—

March 9th.—Ten Minute Papers. "Sterling Accounts of Foreign Branches," by Mr. R. C. Sheen, A.C.A.; "Notes on the Installation of a Costing System in a Small Business," by Mr. E. J. Stone; "A Few Hints on Study for the Young Student," by Mr. A. R. Sweet, A.C.A. Chairman, Mr. W. C. Northcott, F.C.A.

March 16th.—Lecture, "Bills of Exchange," by Mr. J. Wylie, C.B.E., Barrister-at-Law. Chairman, Rt. Hon. Sir John Simon, K.C.V.O., K.C.

March 23rd.—Lecture, "Adverse Foreign Exchanges: their Effect and their Correction," by Sir George Paish. Chairman, Sir A. W. Wyon, K.B.E., F.C.A.

Students attending the Free and Advanced Accounts and Auditing Classes are informed that no class will be held on Thursday, 3rd March.

Leicester Chartered Accountants Students' Society.

On January 26th a Mock Shareholders' Meeting was held, at which the accounts of The Tank Manufacturing Co. Limited, were submitted to very close criticism—a rather heated debate following.

Mr. R. V. Rodwell, A.C.A., lectured on "Excess Profits Duty" at the next meeting held on February 2nd, whilst on February 9th Mr. W. H. Yates, A.C.A., delivered a very interesting and instructive address entitled "Hints to Articled Clerks."

At the recent Final Examination the following members of the Society were successful:—

Intermediate.—Messrs. J. K. Burton, P. E. Collier, and W. G. Forman.

Final.—Messrs. R. H. Butler and R. Dunn.

On February 23rd Messrs. R. V. Rodwell (Chairman of the Committee) and P. Russell will represent the Society at the joint meeting of the Birmingham, Liverpool, Manchester, and Leicester Societies, to be held at Birmingham.

Sheffield Chartered Accountants Students' Society.

We have very little to report on this occasion owing to the postponement of our Joint Debate with Nottingham, and the cancellation of our evening of "Ten Minute Papers" owing to the extreme pressure of work experienced by the majority of our members.

February 2nd, Mr. Picton Davies, who deputised for Alderman S. Osborn, J.P., gave a most interesting lantern lecture on "Welfare Work in Commercial Firms." This lecture was held at the Church House, which was obtained for us by the courtesy and generosity of our President, Mr. C. J. Collier, F.C.A. We are obliged to state, with no inconsiderable pain, that both subject and meeting place, particularly the latter, were foreign soil as far as most of our students were concerned.

We have an excellent March programme, and we hope all our members will make every effort to attend all our meetings.

Students' Society Notes.

South Wales and Monmouthshire Chartered Accountant Students' Society.

Our heartiest congratulations to Messrs. Grey, Reddie, T. D. Evans, and Bond on their successes in the November Examinations, and our sincere sympathies with—well, see the May pass-lists!

We have been favoured with some excellent lectures since the New Year. On the 5th January, Mr. A. H. Williams, A.C.A., read a paper on "Brewers' Accounts" before a good attendance of members at the Royal Hotel, following tea at the kind invitation of one of our Vice-Presidents, Mr. H. S. Metcalf, F.C.A. Mr. Williams drew on a considerable experience of this class of accounts, and dealt with the subject in a most interesting manner. Our old friend (?) "Negotiable Instruments," was the subject of another splendid lecture given by Mr. Barnett Janner, B.A., Solicitor, on the 26th January, at the Society's Library. To make this an interesting lecture requires skill, but Mr. Janner succeeded. On 4th February, the students were invited to attend a lecture given before the Senior Society on "Farm Costs and Accounts," by Mr. H. G. Howell, F.C.A., late of Cardiff, and now Director of Costs in the Ministry of Agriculture. If only farmers would do as he so ably advised! And he assured us that many *were* going in for thorough systems of costing.

We are looking forward with very great interest to the visit of our friends of the Bristol Chartered Accountants Students' Society, and the game of Rugger which has been arranged to take place at Cardiff on the 2nd inst. In order to give our members a chance to find their football legs, we obtained a fixture with Penarth 2nd XV on 12th February, and were defeated by six tries to nil—not too bad for a scratch lot of pen-pushers! Anyhow, we are hoping to retrieve the name of Welsh Rugby on the occasion of the visit of the Bristolians. The suggested programme is as follows: 12.56 p.m. Visitors arrive at Cardiff. 2 p.m. Teams and their supporters meet at Cardiff Castle gate (opposite end of High Street). 2.45 p.m. Kick-off. The match will be held at Syr Dafydd Field (by kind permission of the University College Sports Committee). Bristol play in colours; Cardiff in whites. 5 p.m. High tea at the Dorothy Café, High Street (at the invitation of the South Wales Society). 6.45 and 10.55 p.m. Return trains to Bristol. We offer the Bristol students a very warm welcome, and trust that our members will make a point of being present at the match and tea to assist in their entertainment.

Chartered Accountants Students' Society of Kingston-upon-Hull.

The following is the syllabus for the Spring Session, 1921:—

- Feb. 8th (Tuesday).—Lecture, "The First Principles of Cost Accounting," by Mr. J. B. Bardsley, A.S.A.A., F.C.I.S.
- Feb. 22 (Tuesday).—Lecture, "The History and Usage of Bills of Exchange," by Mr. G. B. Outhwaite, Cert. A.I.B.
- Mar. 8th (Tuesday).—Lecture, "Auditing," by Messrs. P. H. Lambert, A.C.A., and F. S. Mowforth.
- Mar. 17th (Thursday).—Lecture, "Introduction to the Study of Economics," by Mr. J. S. Cooke, B.A.
- Mar. 29th (Tuesday).—Lecture, "The Law of Contracts," by Mr. Geo. T. Mainprize, Solicitor.

Training Ex-Service Men.

At the Final Examination of the Institute of Chartered Accountants of England and Wales, of the 223 candidates who were successful in passing the examination, 103 were trained under the Training Grants Scheme of the Ministry of Labour. In connection with the Society of Incorporated Accountants and Auditors, thirty-three candidates who had received training under the Ministry's scheme were successful out of 104, and at the examination of the Law Society, of the 183 candidates who were successful in passing the examination, seventy-six were trained under the Training Grants Scheme.

The National Guild of Accountants' Clerks.

By the General Secretary.

The National Guild of Accountants' Clerks has recently undergone, in its constitution, changes which it is hoped will see the organisation launched upon a sphere of usefulness which it could never have hoped to attain as hitherto constituted.

Inaugurated, as it was, purely as a pioneer movement to find a remedy for certain social and economic inequalities which existed among the various grades in the accountancy profession, it has grown and outlived its fledgling stage as to now merit a thorough review of the scope of its ambitions. Further, a great deal of dissatisfaction had grown up at the somewhat slow progress and limited scope of these—dissatisfaction which was increased rather than diminished when it was seen how the manual worker was able, by efficient organisation, to effect an improvement in the general conditions of his employment while the average accountant's clerk was receiving nothing whatever commensurate with changed conditions. Readers may not be uninterested to learn the scope of the changes which are designed not only to consolidate the position of the Guild itself, but to facilitate its activities in every part of the Kingdom, and to increase the benefits accruing to members individually.

The changes effected are briefly indicated in the following summaries:—

I. The Constitution

1. The general management is vested in an Executive Council, elected by the branches triennially (one-third retiring each year).
2. A President, Vice-President, and Treasurer elected annually at the Annual General Delegate Conference.
3. Internal control by Sub-Committees, including one on Finance.
4. (a) Division of country into districts with, as far as possible, equality of vote.
(b) Each district controlled by a committee elected by the branches, with a Secretary (paid by capitation).
(c) Each district to be responsible for the branches in its area, propaganda, meetings, &c., and all matters prescribed by the rules or as delegated to it by the Executive Council.
5. (a) Branches to be formed wherever possible, but with a minimum membership of 25.
(b) Controlled by a Branch Committee with a local Secretary or "Corresponding Member."
6. All members shall belong to a branch, and shall be attached to the one nearest to their place of employment.
7. An Annual Delegate Conference to be held each year before which all matters relating to changes in rules or of general importance to the Guild shall be dealt with.

II. Aims and Objects.

1. To provide an organisation for accountants' clerks in all branches of the profession.
2. To improve their status both economically and socially.
3. To secure adequate remuneration and satisfactory conditions of employment.
4. To secure the right to promotion based upon ability, efficiency and seniority.
5. To watch over, promote and protect the common interests of its members, and to adopt such procedure may be deemed necessary or desirable for regulating the relations between members and their employers.
6. To act as a protective organisation on behalf of its members.
7. To secure recognition as the official organisation to represent its members in regulating the relations between employers and the Guild.
8. To provide funds for:—
 - (a) The financial relief of members who may, by reason of sickness or other sufficient cause beyond their control, be in need of same.
 - (b) To assist the widows and children or any other dependent kindred of deceased members.

The National Guild of Accountants' Clerks.

- (c) To render legal assistance.
- (d) To indemnify a member should he be victimised by reason of any action he may rightly take in connection with the affairs of the Guild.
- 9. To provide opportunities between members for intercourse, co-operation, expression and exchange of opinion on all matters affecting the interests of the Guild; to give facilities for the reading of papers, the delivery of lectures, and to arrange for the acquisition and dissemination by publication or other means of useful information connected with the profession.
- 10. To establish a pension scheme.
- 11. To establish an employment bureau.

Several of the districts are now in full working order, and wherever this is so the increased activity is beginning to be felt. It now remains for all accountants' clerks to carefully consider the objects of the Guild, and to join at once in order to make their accomplishment possible without doubt. All those interested are invited to apply to the General Secretary, at 22 Walbrook, E.C. 4, for further particulars, but no time should be lost in joining the National Guild, which is the only organisation that has for its principal object the furtherance of the interests of the accountant's clerk.

Books of the Month.

THE EXCESS PROFITS DUTY, the Excess Mineral Rights Duty, and the Corporation Profits Tax. By A. M. LANGDON, K.C. $8\frac{1}{2} \times 5\frac{1}{2}$, viii+167 pp. Fourth edition. 10s. n. Post free 10s. 6d. [A valuable treatise. The new edition includes the modifications in the Excess Profits Duty made by the Acts of 1918, 1919, and 1920, and also the Corporation Profits Tax.]

FACTORY ADMINISTRATION AND COST ACCOUNTS. By E. T. ELBOURNE. $9\frac{1}{2} \times 6\frac{1}{2}$, xx+811 pp. 45s. n. Post free 46s. [A very complete reference book of the principles and practice of industrial administration and costing for present-day requirements.]

COSTING AT NATIONAL FACTORIES. By M. WEBSTER-JENKINSON, C.B.E., F.C.A. $10\frac{1}{2} \times 8$, 48 pp. Second Reprint. Price 2s. 6d. Post free 2s. 8d.

ERRORS IN BALANCING. $8\frac{1}{2} \times 5\frac{1}{2}$, 32 pp. Fourth edition. 2s. 6d. n. Post free 2s. 8d. [A concise handbook dealing with the more usual causes of differences in Trial Balances and the method of their detection.]

COMPANY LAW FOR COMMERCIAL STUDENTS AND BUSINESS MEN. By ALBERT CREW. $8\frac{1}{2} \times 5\frac{1}{2}$, xxix+282 pp. 7s. 6d. n. Post free 8s. 3d. [The second edition of this work has been thoroughly revised and considerably enlarged. It will be found very useful by students preparing for Accountancy and Secretarial Examinations. A representative selection of recent previous examination questions is included in the appendix.]

THE ACCOUNTANTS' MANUAL. Being the Questions set at the Examinations of the Institute of Chartered Accountants, with answers thereto. Intermediate and Final, November-December 1920. Vol. xviii. Part I. $9\frac{1}{4} \times 7\frac{1}{4}$, 76 pp. Price 2s. 6d. Post free 2s. 9d.

THE INCORPORATED STUDENTS' TELEPHONE, No. 22, December 1920. Questions and Answers to the Intermediate and Final Examinations of the Society of Incorporated Accountants. Answers by D. F. de l'Hoste Ranking, M.A., LL.D., and Spicer and Pegler, Chartered Accountants. 10×8 , 79 pp. Price 2s. 6d. Post free 2s. 8d.

THE INCORPORATED ACCOUNTANTS' YEAR BOOK, 1921. $7 \times 4\frac{3}{4}$, xix+568 pp. 3s. Post free 3s. 6d. [Contains the names of 3,140 members, and the full Regulations of the Society.]

Students' Legal Difficulties.*

By M. R. Emanuel, Barrister-at-Law.

In the following paper Mr. Emanuel deals with some of the most common difficulties which puzzle students of the law. It should be read carefully by all who are working for the examinations.

My first impression on being asked to lecture to students on their legal difficulties in mercantile law, was that your school was putting the cart before the horse; but on consideration it occurred to me that when one visits a doctor he often puts his finger on a spot and says: "You have a pain there." It is no use to deny it, for if a doctor says you have a pain you must have a pain, and if I say you have a difficulty here or there you must have one, and I will try to explain it away. I imagine if I was a legal student wanting to know something about law for the purpose of accountancy or general knowledge, the first thing I should do would be to go to a friend and ask him to recommend me a text-book. There are a great many text-books on Contracts, varying from a few hundreds of pages to nearly two thousand pages, but there are not many—including my own—which, without help, would not leave you in a more confused state of mind than when you started. The books are full of technical terms, which although familiar to the author, are puzzling to the student, who is also confronted with Latin and Norman-French terms. It is strange that while these terms and words have been abandoned in every sphere of life, they should still crop up in our Courts. The Courts are open to any person to conduct his own case in his mother tongue, and it is monstrous that an unaided litigant should have to listen, from judge and counsel, to words in a foreign language. I hope the time will come when it will be considered as pedantic to use these terms in the Courts, as it has become during the last generation to quote Latin in Parliament. It is quite unnecessary to use these words. Why say *res ipsa loquitur* when you only mean "the thing speaks for itself"; *ultra vires* when you only mean "things beyond one's powers"; *market overt*, when you mean "open market." There used to be a riddle people asked: "What is it that has two legs and wings, and barks like a dog?" When you give it up, you are told the answer is "a chicken." You remark that a chicken does not bark like a dog, and are told: "I put that in so as not to make it too easy." Perhaps these foreign words are retained not to make the law too easy. A cynic might say: "If it was not for these unnatural difficulties, there would be no use for a lecturer." You certainly want a lecturer at your elbow all the time you are studying these subjects, if only to translate the words for you.

There are other irritating things you will come across before you have gone far. You will want to know why a man may do something, or not do something, according to English law. May he transfer a right to someone else? If he has a right to receive money, may he transfer that right to someone else, so that that person can sue upon it? If you look in the text books for an answer, you will find that he may do certain things by common

* A lecture delivered before the London Branch of the School of Accountancy Students Association at Essex Hall, Essex Street, London, W.C., on Tuesday, November 30.

Students' Legal Difficulties.

law, others in equity, and others by statute. The bewildered student finds three kinds of law which seem all to prevail at once, and all to contradict each other. Yet a few words of explanation clear away the difficulty. Common law is the old unwritten law which grew out of primitive customs. As time went on, and commerce increased, it was found that this old Common Law was not sufficient to meet the demands of civilisation. First it was deficient; matters arose which were not provided for. Then it was found very harsh in particular cases. The custom then arose of going to the Lord Chancellor, who sat to administer equity, and where the case involved hardship the Lord Chancellor would intervene, and dispense with the strict letter of the Common Law. So came about the system known as Equity. The law of mortgage is a good example.

In the old days, the person mortgaging his property often lost it because sufficient time was not allowed to him to repay the debt. The Lord Chancellor intervened, and said that the man who had borrowed the money should have a reasonable time for payment before he lost the estate, which was only a security for the debt. The Common Law Courts were very jealous of their rights, and complaints were sometimes made by the Common Law Judges against the Lord Chancellor's interference. We find the quaint complaint that wherever the measure of law was certain, the measure of equity was as uncertain as the measure of the Lord Chancellor's foot. In the course of time it was settled that where law and equity were in conflict, equity was to prevail.

Statute Law is simply an Act of Parliament, and overrides both law and equity. Take the case of the Moneylenders' Act; by Common Law, if you borrow money at interest, you have to pay the full amount of interest. If the moneylender charges you 100 per cent. you have to pay it. Then came in Equity. The rules of equity did not make moneylending illegal, but gave relief against the letter of the law in certain cases, i.e. when advantage was taken of an expectant heir. Then came the Moneylenders Act, which said that any harsh and unconscionable transaction could be reopened. That illustrates the meaning of Common Law, Equity, and Statute Law.

Another complaint you get is that the Law is dull. That statement, like the report of Mark Twain's death, is grossly exaggerated. To the student of precise mind the clear reasoning and logic of the law are attractive; the setting of given facts into their legal settings is the most fascinating of jig-saw puzzles; while to the student of a romantic temperament each case is a little novel. What tragedy he may find in the revoked bequest of the best silver tea service; what comedy in the negligent opening of a cellar door.

To return to the question of Contracts. The first thing you look for in a matter of this kind is a definition, and you will find a definition of contract in every book. They all agree in telling you that a contract is an agreement enforceable by law. That sounds very fine, but it does not tell you much. You ask, "What is an agreement, and when is it enforceable by law?" You will often hear a man asked in Court if he had an agreement say "No," because his idea of an agreement is something that is written out. It is not necessary in all cases that agreements should be in writing; you may have a verbal agreement, and you may have an agreement without any words at all. Suppose I go to a shop to buy cigars or a hat, there may be an agreement to sell and to buy from the mere fact of my asking the goods to be sent. You may go into a bus or take a cab without saying a word, and by the mere fact of your being in it you have undertaken to pay according to the recognised charges. Of if you employ a man to do work, you may say nothing about price, but it will be taken that you have agreed to pay him a reasonable price for the work done. What is a reasonable price will have to be decided. So you may have an agreement without anything in writing or anything in words. The essential thing is proposal and acceptance. I make a proposal, and you accept it; it must be in the same terms.

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Suppose I go into a shop to buy my wife a hat. Being a mere man, though I want a picture hat, I may think the proper word is a toque. They send the toque home, but they cannot make me pay for it, there being no contract. We used the same language, but we did not mean the same thing.

The next question is, "when is a contract enforceable?" To answer that you will have to read through the whole book. The standard book used in your school is by Stevens. There are a number of agreements which are not enforceable at law. I may make a social engagement with you, and may not keep it. I may keep you waiting in the rain without turning up and you may suffer certain damage, but that is not a contract for which you can claim any damages. Betting agreements are not enforceable, and there are a number of agreements which must be in writing.

Then there must be what is called "consideration." When I started to study law I imagined that consideration meant that you must consider the matter well before you came to a decision, and that if you entered into a contract without duly considering it, it could not be enforced; but it means nothing of the kind. There must be some value, or you must forego some right. If I promise to give you £50, it is only a moral obligation; you cannot enforce it by law because there is no consideration, no *quid pro quo*. English law is exceptional in that respect; the need for consideration does not exist even in Scotland. In the 15th century our judges decided that a mere promise could not be enforced as a promise unless there was something in return for it. If you agree to exchange a house in town for a house in the country, the house in the country is the consideration for the house in town; some benefit is received. Supposing I said I would give you a house in London if you would live in it, there there would be a consideration; you give up the right to live where you choose. Once prove any sort of consideration, and the contract can be enforced, but there must be some consideration. The value may seem inadequate, but there may be some reason for that—questions of sentiment, questions of value at the particular time. Therefore the Courts lay down the rule that if you have any value, or consideration, the contract can be enforced unless it is void for any other reason. Supposing you say you will stand on your head for an hour for £50 and then the other party will not pay it. It might be argued that this was a bet. But if there was a serious agreement, it would be a perfectly valid contract.

Then you come to the question, "Who may enter into a contract?" There are a number of people who cannot enter into any contract at all—e.g. infants, corporations, and lunatics. I see no infants or corporations present, but I see some ladies—possibly married—so let us refer to them. Married women have only limited rights. It is a big subject, and I cannot attempt to deal with it to-night. Before 1882, with very few exceptions in the City of London and other places, a married woman could not make a contract at all. Then women's rights became more advanced, and the Legislature allowed them to make contracts with regard to their separate estate. Then the Courts put this construction on it, that they could only contract with regard to property which they had at the time, and not with regard to property which might come into their possession immediately after making the contract. In 1893 an amending Act was passed that a woman might make a contract with regard to property she had at the moment or acquired subsequently. Then there came a curious difficulty of construction put upon that by the Court; the Court said she was not personally liable but only to the extent of her property. A student may ask what that means; it seems nonsense, but there is a meaning to it, a very technical one, which I cannot attempt to explain in a few words, but one effect of it was that you could not get a bankruptcy order

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against a married woman unless trading separately from her husband. Only her property was liable and not she personally—so the Court said. You could not make her a bankrupt until the Act of 1913 came into operation, which specially provided that married women might be made bankrupt.

The Statute of Frauds passed in the reign of Charles II provided that a number of contracts should not be enforceable unless in writing. They were four or five in number. The case of an executor who agreed to be personally responsible out of his own pocket was one. It often happens that when a man dies the executor will say, "Never mind, I will see you paid out of my own pocket." That was not to be enforced unless in writing. Another was where a guarantee was given. Everyone knows that a guarantee must be in writing. If you go to a shop and say you will guarantee the payment for goods ordered by someone else, it must be in writing. Another was an agreement made in consideration of marriage. That does not mean a mutual promise to marry, but "I promise that if someone marries my daughter I will give him some money." That has to be in writing. Then agreements which are incapable of performance within a year have to be in writing, certain contracts relating to land, and, lastly, contracts for the sale of goods to the value of £10 and upwards have to be in writing, or there must be acceptance of the goods.

Then we have the Statute of Limitations. You know you cannot enforce an action after a certain number of years—six years in the case of an ordinary contract, twelve years in cases of the recovery of land, and twenty years in the case of a deed. A deed is a contract under seal—"Signed, sealed and delivered." A deed is a more solemn form of contract, and no consideration is necessary in the case of a deed.

Another difficulty for students connected with the Statute of Limitations is that it is said to bar the remedy but not the right. The remedy is your power to sue for the sum in Court. Suppose I have owed you a debt for six years, that is barred; you cannot go to the Court, but the right exists though the remedy is gone, and if I were to acknowledge the debt in writing, or make a part payment, making it clear it is on account of the debt, then the remedy revives, and you would be allowed to go to Court to enforce it for another six years. The Statute of Limitations bars the remedy but not the right.

Supposing it is impossible to carry out a contract; the general rule is that impossibility is no excuse. If you cannot carry out the contract, you have to pay damages. Suppose I agree to carry out an undertaking and am prevented by a strike. Nevertheless I have agreed to do it and must do it, and if not, I must pay damages. It is for that reason that provision is made in agreements against strikes, &c.

Like everything else, there are certain exceptions. Supposing this hall was let for a lecture and before the date was burned down by fire. The contract would be gone, too, and no one would be liable. This principle was carried further a few years ago. You will remember that the Coronation of King Edward VII was put off because of his illness. A great many people had hired rooms to view the procession, and then declined to pay as the procession was abandoned. One case went to the Court of Appeal and the Court held that the man who had let the room could not recover the rent. The man who had agreed to hire the room was not bound to pay; it was said to be similar to the case where the foundation of the contract was gone, but, curiously enough, in the case where the money had actually been paid, the person who had paid it could not get his money back. One man who paid lost his money while the other man escaped. There are certain other exceptions.

Supposing a contract has been half performed, can you claim for what you have done? That depends on whether what you have done is of use. There

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is occasionally some common sense in the law. Supposing a house is half built, the man who ordered the house is entitled to refuse to pay for half a house, but, on the other hand, if you have a contract to deliver coal for three years, and you have delivered for two years, you are entitled to be paid for what you have delivered. Then there is the case of misrepresentation. This may be innocent or fraudulent. The general rule is that if it is innocent the party injured can refuse to carry out the contract, but cannot claim damages. If it is fraudulent he can not only set it aside, but claim damages as well. There are, of course, exceptions, e.g. people issue prospectuses in which they have made statements which it is impossible to bring home to them as frauds; special provisions have been made to meet such cases.

When you claim damages, how much damages do you get? That is a question which is asked many times. The answer is that you get such damages as naturally arise from the breach of contract or as may reasonably be supposed to have been in the contemplation of the parties as the result of the breach. Take the case of a plumber agreeing to patch your roof. It was specially agreed that he should do it to-day; he failed, and the rain came through the roof and spoiled the carpet. That would be the natural, probable result, and you would get damages for the carpet. Suppose you slept in the room and you got pneumonia and had to pay a doctor's bill, that would be a more difficult case. Is it a natural, probable result? I think not. The plumber had no reason to suppose you would have to sleep in the room, or that, if you did, the natural consequence would be that you would get a serious illness. To take it further, suppose a meteor falls through the roof, that is too remote, you could not have expected that. It is not a natural, probable consequence, but an extraordinary thing which no one could foresee, and you cannot claim damages. Damages must not be too remote; they must be the natural, probable consequence of the act.

I now come to the sale of goods, partnership, and companies. With regard to the sales of the goods, the contract is the same as any other. The principal question is when the property passes. Students may think the property is the thing itself, but that is wrong. The property may pass before the goods are delivered; it is the property *in* the thing and not the physical thing. Generally, when a specified thing is sold in a deliverable state, the property passes at the time of the sale, though the goods are not yet delivered and payment not made. Suppose a fire breaks out and the goods are destroyed. The true owner of the goods is the man who has bought them, though he has not taken them away. This question has arisen very much lately with regard to the treaty with Germany. There were many cases just before the war when goods were sold to other countries—Russia, Roumania, or Belgium. When the war broke out these goods were seized on their way through Germany. The Treaty says the Germans are to pay damages for all injury caused by special war measures to British property, but in these cases, as the goods had been sold to other countries, the property in them had passed to those other countries, and the English vendor cannot recover. This has given rise to a great deal of hardship where the sale of goods has been to Russia, because it is the person in Russia who has the claim against Germany and not the English vendor.

Another point in connection with the sale of goods is the distinction between a condition and a warranty. When you sell goods, and do not give exactly what is wanted, the question is whether you have broken the condition of the sale or only the warranty. If you have broken the condition of the sale, the purchaser can refuse to take them, and if the warranty has been broken, the purchaser can get damages, but must keep the goods.

Now as to partnership. A partnership is described as the relation existing between persons carrying on business in common with a view to profit.

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But as soon as you get a definition you find a great many relationships which are not partnerships at all, though they fall within the definition. Shareholders in companies are clearly not partners, yet they come within that definition. The Partnership Act of 1890 expressly excluded companies. Again you have these cases, "Receipt of a share of the profits by the widow of the deceased partner," or, "In return for a loan." You may have no intention of becoming a partner, and do not want to be liable as a partner, but only to get a certain portion of the profits. But according to that definition you would find yourself a partner. If a man interferes at all with the business, by dismissing servants or appointing agents, he would make himself a partner. If you assume the rights of a partner, you are subject to the liabilities of a partner. Partnership, unlike limited companies, involves an unlimited liability; you are liable to the last penny you have got to pay creditors. The Limited Partnership Act did not alter things very much, because a limited partner, if he interferes with the business, becomes liable as a general partner.

Can a partner always involve a firm? No. All partners are agents for one another, but one partner cannot make his co-partners liable for anything outside the ordinary scope of the business. Take a greengrocer's business. A partner who buys apples involves his co-partners in the liability to pay for them, but if he buys something outside the ordinary run of his business his partners are not liable. Then there are the joint and several liabilities. Partners are jointly liable for the deeds of another, but there is only one liability, and if judgment is obtained against two partners by name it cannot afterwards be enforced against a newly discovered sleeping partner. Therefore it should be obtained in the firm name, to cover all partners.

I have not left myself much time to deal with the case of companies. The history of company law is a long struggle between the Legislature and the fraudulent promoter, and resembles the struggle between increasingly powerful armour belting for ships and armour piercing shells. As fast as one scheme is stopped by the law the company promoter will try to find another. One fraud very common just now is where the husband and wife form a private company and the husband issues debentures to himself as a private person and so gets an advantage over the ordinary creditor.

It is as impossible for the student to remember all the rules of law without understanding the principles which underlie them, as it would be to remember a book of Euclid in parrot fashion.

Having told you some of the difficulties of a student, let me conclude by telling you some of those of the lecturer. The types of student he particularly fears are the shy student and the garrulous student. The shy student would rather sink through the floor than ask a question which the lecturer is anxious to explain, while the garrulous one leads him into bypaths altogether remote from the subject. Thus I once found myself discussing whether an executor might extract the gold fillings from the testator's teeth in order to pay his creditors. I have even suspected the student of trying to pull the lecturer's leg. Moreover, "assume an interest if you have it not." Nothing is more disconcerting to the lecturer who is explaining a legal intricacy than a half-suppressed yawn. The four corner stones then are: "Don't be shy," "Don't be garrulous," "Don't pull the lecturer's leg," and "Don't yawn," and before you can do any of these things to-night I will conclude my lecture.

Efficient Administration: A Prime Essential to Britain's Economic Recovery.*

By Prof. Lawrence R. Dicksee, M.Com., F.C.A.

To get the best results from any commercial undertaking the first essential is efficient administration, and in the following paper Professor Dicksee shows that this truth applies equally to the affairs of a nation.

The choice of the subject of my lecture to you this evening has been that of your Chairman, and I am particularly glad it has been so, because it struck me as one of the most useful subjects for a single lecture, where the aim is necessarily not so much to convey exact information as to inspire interest in a course of study. Our present subject—the vital importance at the present time of efficient administration—is a particularly happy choice for those studying accounts, because there is rather a tendency on the part of those in charge of the accounts of an undertaking to adopt the attitude of the disinterested spectator. This attitude is quite a proper one for accountants from one point of view, but the tendency is rather for the accountant to regard himself as someone cut off from the actual business, instead of being a co-worker. The place where the accountant does his work is called the office. The place where the outside people do their work is called the warehouse, the works, or the factory. In South America, the name given to the works or factory is “*officina*.” The words “office” and “factory” really mean the same thing—the place where the work is done; but the fact that we use the words “office” and “factory” as implying two quite different things, shows, I think, that we have got in our minds a sort of close partition between the accountant's work and the work of the practical business man. Few people realise that “office” is really the same as “factory.” It is, therefore, worth our while now and again to try to get more closely into touch, in mind and in spirit, with the workers.

Efficient administration, as suggested by the title of my lecture, is a prime necessity for Britain's economic recovery. The use of the word “recovery” suggests that one has to recover from something; that there has been ground lost, and that we have got to win it back. We all know that that is so, as compared with 1914. There has been great wastage of property, many persons have been diverted from production, stocks of essential commodities have been brought low, credit and exchange disorganised, transport facilities rendered inadequate, and, worst of all, the morale to-day can only be described as deplorable. It may seem out of place, now that the war is over, to hark back to it, and call up painful memories by the use of similes suggestive of war. I will come to that point later, but at the moment I may say I am doing it deliberately, because I think it the only useful way to approach our subject.

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When the Armistice came, the idea, as put forward in the newspapers, was that the men should come back and get to work, and achieve the economic recovery that we all felt was necessary. They came back—all but the best of them—but they have not done much else. The appeal made to them to get to work and repair the wastage of war was not so very absurd when we bear in mind the claim put forward for some years before on behalf of organised labour, as being the sole producer of all the wealth in the world; but we have to take things as they are. Whatever our precise shade of political views may be, we must admit that efficient direction is not now conspicuous among the workers. If labour was now trying to do its best towards economic recovery, it might be reasonable to admit the claim that labour is the source of all wealth. But what at the present time is organised labour doing? To a very large extent we must all agree that it is using its organisation to withhold production, with the result (whether it is intended or not) of creating further shortage. The appeal to labour to repair the wastage of war has so far had no good effect. My suggestion to you this evening is that to a large extent the failure is due to the appeal having been made, I will not say to the wrong parties, but in the wrong way—direct to labour, instead of being made through administration. Labour can do great things, but little or nothing without guidance. That guidance it is the function of administration to provide.

If we pause to consider for a moment what the word “administration” means, we find that it still further reinforces that idea. To administer is to render aid or service. Such administration will be efficient when it achieves a desirable result, and it will, in the main, consist of doing the right thing, in the right way, at the right time.

It seems to me that efficient administration has two aspects, material and spiritual. In each of these aspects it should be educative rather than directional. It suffers very often from the wrong assumption that authority of itself gives knowledge. If we take the view that administration represents the leading force in connection with all useful work, we shall see that it cannot be effective if it always operates from the rear. One can drive from behind, but one cannot lead from behind; and, in so far as leadership is necessary, the rank and file, no matter how able they are, can do very little without leaders. Here you see I come across the military simile again. It is difficult to speak on the subject in any other way. Perhaps some of you may wonder why I use terms recalling these unpleasant things. It is because I think it is essential to Britain's economic recovery for us to remember that we are still at war, and that we shall always be at war so long as the world lasts. If we are not warring against one thing we are against another. Just now we are at war against ignorance and sloth, and without that kind of war there can be no progress.

If administration represents enlightened leadership, it may give very good value to the rank and file by enabling them to concentrate upon their own particular job. We all know that there are men in a small way of business who are never free from worry, who never make good; men who would be far better off as employees, simply because they have no administrative ability. If we were to abolish administration, all employees would be in that position, save the few that had administrative ability.

One of the functions of administration is to find a job suitable for each member of the rank and file. By that I do not mean to find a job in the sense of creating positions that are paid for whether there is any use for them or not. I mean, considering the work that has to be done, resolving

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it into its constituent parts, finding out the qualities required for the performance of each separate part of the work and distributing that work among the workers in the best possible way—staff selection it is sometimes called. And hand-in-hand with staff selection goes, or should go, staff training.

The old-fashioned method of managing a business, I need hardly remind you, was—and to a large extent it still is—to call out for qualified workmen, and then to grumble at those who offer, and complain that they are deficient. The last thing the old-fashioned administrator ever thought of doing was to train his staff; he expected them to come to him ready trained. If it were possible for them—I do not mean exceptional individuals, but as a whole—to train themselves in the best possible way, that would be reasonable, but a little inquiry into facts is sufficient to show that it is not possible. It is only the exceptional man that can achieve any reasonable standard of competency by being self-taught in whatever line of activity we may choose to think of.

Being self-taught means picking up your ideas as you go along by observing others, and, in the vast majority of cases, without the possibility of observing the best people. It is a system which, under the most favourable conditions, serves to perpetuate mediocrity, and very often it does much less. That is what, as a nation, we have been very much in the habit of doing with regard to those kind of things that, after all, make up the prosperity of our country. How little in our heart of hearts we believed it to have been an efficient system is shown by the fact that we never think seriously of adopting that method in connection with our games. Boys at school do not pick up cricket and football; they are taught them. The man who wants to play bridge without losing his money takes lessons. If a man wants to excel at golf he takes lessons from a professional. We always appreciate the importance of training and teaching in connection with our amusements. Directly a matter is in any way within the range of athletics we realise that training is something rather apart from teaching, and perhaps even more important, and we recognise that good results cannot be produced unless we live the life that makes it possible to produce good results.

Then another point. Directly we want to achieve something more than the mere passing of the time by these recreative pursuits, we take—and young people come to it instinctively—a very great interest in records. The average schoolboy knows a great deal more about the statistics of cricket, and attaches a great deal more value to them, than the average business man knows of statistics in connection with his own work. Of course, everything can be overdone. We can devote so much attention to burying our heads in figures and statistics that we really have no time left to look up and see what is going on; but it is very important that we should study what is happening because only by that means can we possibly tell what it is reasonable to expect.

You will, I am sure, all bear me out, when you come to think of it, when I say that there is a general tendency for us all to be too easily satisfied with our achievements—not perhaps all our achievements, because we most of us probably have some particular thing that we are careful of and doubtful about, and perhaps that is the very thing we do best: but with regard to most of the things we do, or ought to do, we are quite satisfied we do them well.

There are various ways, of course, of testing whether a thing is done well or badly. Some are easier than others, but just as an illustration—and only as an illustration—let us try the test of speed.

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In connection with practical business it is obvious that in the long run the remuneration of the worker has to be provided out of the work produced, and it is clear, therefore, that speed of production is a matter of importance. It is not a matter we can afford to overlook, although, like everything else, it is an idea that can be overdone. In regard to this question of speed—because it is the one aspect of the matter that I can put before you in a more definite way than any other—I should like to draw your attention to a few figures. Men employed in shovelling coal from one place to another were found to average, doing it their own way, 16 tons of coal per day, but when they had been taught how to do it they were able to shovel 59 tons per day with less exertion. Bricklayers, left to their traditional methods, were in the habit of averaging 120 bricks per hour, but when taught how to do it they could readily lay 350 per hour. Compare that with the number of bricks laid per day in this country at the present time.

Now let us get on to something perhaps more within the practical experience of many of you here this evening. Supposing someone is regarded as a competent typist; that very likely means he, or she, could average on fairly straightforward work from 40 to 45 words per minute. That is not bad typing. At the present time, to the best of my knowledge, the world's record is 143 words per minute. In shorthand, the shorthand clerk varies his speed more than the typist; it may be anything from 80 to 120 or 130 words a minute. The world's record is 322 words per minute. I am not suggesting for a moment that every worker could achieve a world's record; that would be as absurd as to suggest that everybody could run 100 yards, or a mile, in the record time; but beyond doubt a knowledge of what has been done by others is a most useful spur, and a very good corrective of that self-complacency we are all very apt to fall into.

I will give you another illustration which you can test for yourselves. Most of you shave in the morning; the probability is that the great majority of you have never counted the number of strokes you make with your razor in the process. The number of strokes you make is not necessarily an index of your ability—that is to say, the smaller number is not conclusive proof that you do it better or quicker, but you may be sure that the number is as large as it is mainly because you do not think beforehand what you are doing, but you just go on with a sort of reflex action of the hand without thinking what you are doing. Try the experiment next time, and count how many strokes you make; then make up your mind that that number can be reduced by half in a fortnight, and I am perfectly certain you will find you can do it. I have tried that with a number of students, and have never known it otherwise. In my own case I found I took as many as 320 strokes, which is certainly a large number. I got it down to 112 quite easily. Then the first time I put it to a body of students I found that, compared with their experience, 112 was quite a large number, their best being 52. That was rather a shock to me, but I was not to be beaten, and I got down to 52 within a week. From 320 to 52 is a big difference. The funny part about it is that if you do not count for a week you will find the number going up again. That is typical of everything; if we are not always on our guard, we find that we are always slipping back.

But administration, of course, does not consist in forcing the pace: speed, and nothing else. In so far as it is possible to increase speed it does so, in the main by studying precisely what motions are performed in the fulfilment of the task. Cutting out useless motions diminishes fatigue. In this matter we have been greatly assisted by the camera. We can get instantaneous photographs of the most rapid operations, and throw them upon the screen to get the general effect of how the thing has been done, or

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should be done, as the case may be. We can then reduce the pace at which they are thrown upon the screen, so that the movements may be analysed exactly. It is not to be expected that those who have been aiming at a high rate of speed in the past have accidentally stumbled upon the best possible method. Good results come only as a result of careful study. In the illustrations I have given you we have seen that there is scope for very considerable improvement. That is, scope for still further study.

Administration, again, does not consist merely of staff training, so as to speed up results; it also involves study of the psychology of fatigue. This is very necessary, if we are going to maintain these results, so that we may find out the conditions under which work can best be done. The average individual rank and file worker knows little about that. He is in no danger of smashing himself up by neglect of the necessary rests; but on the other hand there are casualties every year, probably every day, from this cause, and these casualties in the nature of things often occur in connection with the most promising workers. There is a great scope for further inquiry in this direction, although during quite recent years a good deal of pioneer work has been done.

But we have to take a much wider outlook yet, before we can really claim that we have been administering to the needs of the worker. It is not merely enough to watch the individual worker at work and instruct him in the best way. We have also to see that he is supplied with the conditions which make for good results. This is classified to-day under the heading of Welfare Work. In all the large factories to-day are welfare workers, whose functions differ very materially according to the circumstances. The welfare worker may be anything from a domestic factory inspector on the one hand, to a games master on the other. Very often the welfare worker has the engagement of employees. Looked at from this point of view, we are dealing with what we may call the personal aspect of employment, and the aim is to supply that human factor in connection with employment which was formerly crowded out in large undertakings when the number of employees became so considerable that the management lost touch with the employees as human beings. There is much room for development on these lines, and much scope for administration; but nothing, it seems to me, can take the place of some sort of human intercourse, however slight, between the individual workers and the chief. My experience is that the more works managers, or managing directors, are able to keep in personal touch with all their workers, the better. They should not only know them by name, but be able to talk to them. We might regard that as one of the tests of administrative ability.

But that is not all there is to be said. There is such a thing as suitable housing, and provision for reasonable recreation, and education, and so on. And as regards housing, we have also to consider the position under which the worker operates while at his work. If we are expecting from A. and B., two workers, a similar output in quantity and quality we are manifestly unreasonable, unless we not only give them similar tasks to perform but also give them similar means of performing them and similar conditions. If we want to get the best results we must supply the best conditions for the production of them, and it is up to the administration to do that. In the ordinary course of events it is not reasonable to expect good results in the absence of suitable equipment, suitably placed.

It is up to the administration also to provide continuity of work; and that can only be done by very careful planning, which often involves thinking a long time ahead. We have got to consider, when we are deciding whether to take a particular order or not, how we are to carry it out.

Efficient Administration.

In so far as it is the function of administration to guide, it can only guide, as distinct from driving, by pointing out the way—and pointing out that it is the right way—and keeping the rank and file informed of what they are doing. We want to be continually comparing what is with what should be. Competition has its uses in this regard, as was proved by the competition amongst riveters in shipbuilding during the war, when one yard was competing with another as to the number of rivets that could be driven in a given time.

A very common criticism of any attempt at centralising administration is that it makes work monotonous. Don't believe it. The really monotonous or uninteresting job is always the job that is indifferently done. Whatever it may be, if it is really well done, you may be quite sure it is not uninteresting to the man who does it. If we can get workmen to take a really living interest in what they are doing they will never complain that their work is uninteresting.

But above all, administration means the inspiration of uplifting ideals, that brush away all clogging doubts and distrusters, and banish fatigue. It must be upon the right lines materially, because it has to deal with material things; but at heart it is essentially a matter of the spirit. Nothing can permanently succeed, if done in the wrong spirit. It is for the efficient administrator to renew a right spirit within us, so that we each no longer seek the welfare of ourselves, our families, or even of our class. So that we may strive in work not only to find our own soul, but rather the great One-Soul of all our race. Then, and then only, shall we be irresistible—because Efficient.

Do the Right thing, in the Right way, at the Right time.

A Partnership Agreement, with Notes.

By Neville Hobson, Solicitor.

The following is a copy of the Partnership Agreement, with notes on each section, upon which Mr. Neville Hobson delivered a lecture to the Chartered Accountants Students' Society of Kingston-upon-Hull last session.

AGREEMENT.

THIS INDENTURE, made the 30th day of November 1920, BETWEEN "A.B." of the 1st part, "C.D." of the 2nd part, and "E.F." of the 3rd part WITNESSETH as follows:—

1. The said parties hereto and the survivors of them, will become and remain partners in the business of Furnishers, Ironmongers and Profiteers at Kingston-upon-Hull and the said East Riding, or wherever else they may mutually agree from the date hereof for the term of 10 years, if they or any two of them shall so long live, but subject to determination as hereinafter provided.

2. Any partner may retire from the partnership at any time after the 30th day of November 1923, on giving not less than 6 calendar months' previous notice in writing to the other partners, and at the expiration of such notice the partnership shall, as regards the partner giving such notice, terminate accordingly.

3. The death of any partner shall not dissolve the partnership between the remaining partners.

4. The style or firm of the partnership shall be "Slick & Co."

5. The bankers of the firm shall be "The Hull Bank, Ltd.," and all moneys and securities (except such money as is required for current expenses) shall be paid into the said bank and deposited with the said bankers.

6. All cheques drawn on the partnership account shall be signed by at least two partners.

NOTES.

[References are to Partnership Acts, 1890.]

Infant not bound by Partnership Contract during minority. On attaining 21 he may repudiate same, but cannot recover premium if he has derived any benefit.

If he adopts Contract and continues Partnership, liable for firm's debts contracted during minority.

Fixed term inserted to prevent partnership being determined by notice of any partner under Section 32. Otherwise partnership can be determined at moment's notice.

To facilitate retirement of one partner without dissolving partnership between remainder.

Under Section 33 the partnership is dissolved—as regards all the partners—by the death or bankruptcy of any partner (unless otherwise stipulated).

Firm may trade under any name they desire, but must not deceive the public (even though using their own names).

A general business precaution and to facilitate audit of books.

Apart from a special agreement, any partner in a trade partnership may bind firm by—

1. Signing Cheques.
2. Borrowing money on credit of firm.
3. Depositing Deeds.
4. Selling and Purchasing Goods.
5. Receiving Debts, &c.
6. Engaging Servants.

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If therefore it is desired to limit this authority, and to stipulate for any of these matters to be done by two partners only, a special clause should be inserted in the Deed of Partnership.

Cox v. Hickman decided, however, that even when partners expressly agreed to restrict the apparent authority of any of them, such agreement was inoperative against persons without notice. In the case of this clause, however, the bank, having notice of this agreement regarding cheques, would be liable if they honoured a cheque signed by one partner only.

7. The Capital of the Partnership shall be the sum of £10,000, made up as follows:—£5,000 to be provided by the said A.B., £4,500 to be provided by the said C.D., £500 by the said E.F.

The said business premises and assets of the late firm of Slick & Co. shall be valued at their purchase price, namely, £8,000, and the remaining £2,000 subscribed by the partners shall be utilised for the purpose of new stock and reconstruction of premises.

Important to specify the proportions of Capital brought in, as, on dissolution, assets are applied (after payment of outside debts and repayment of advances by partners over their stipulated Capital) in paying the Capital of the partners.

After this has been done, however, any residue is divided in accordance with their share of the profits (see Clause 11). N.B.—Not merely is all property originally brought in partnership property, but also everything subsequently acquired and used in connection with all partnership business.

The mere use of buildings, however, by partners for purposes of business does not of necessity make such buildings partnership property—but course of dealing may make some part of Capital.

Any land or buildings which, after valuation, become partnership property, is treated between the partners and the personal representatives, as personal property, but legal estate in land belonging to partnership devolves in the ordinary way, but in trust for persons beneficially interested in partnership.

8. Each partner shall be entitled to interest at the rate of 6 per cent. per annum on the amount of his capital for the time being in the said business.

Unless expressly stipulated, no partner is entitled to interest on his capital. Under Section 24, however, he can claim 5 per cent. on advances made to the firm beyond the Capital which he has agreed to subscribe.

9. All outgoings and expenses of the partnership, and all losses and interest on capital shall be payable out of the profits and capital of the partnership, and in the case of deficiency, by the partners in the shares in which they are entitled to the net profits of the business.

Under Section 44 losses are to be paid
1stly from Profits.
2ndly from Capital.

3rdly by partners individually in proportions to which entitled to profits. If, therefore, capital is contributed unequally, but profits shares equally, each partner pays equally towards deficiency.

10. The partners shall be entitled to the net profits in the following shares: A.B. 3/7ths, C.D. 2/7ths, and E.F. 2/7ths.

Unless otherwise agreed, partners are entitled to share profits equally, independent of the original shares of capital contributed.

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11. Each partner may draw out of the Banking Account a sum not exceeding £15 per month for current personal expenses, but if on taking the annual statement of accounts the drawings of any partner shall exceed his share of profits for such year, he shall forthwith repay the excess.

12. Each partner shall give his whole time and attention to the business, and if he shall engage in any other business or dealing in contravention hereof, any moneys received therefrom shall be deemed—as between the partners—to be partnership property.

13. No partner shall, without the written consent of the other partners, do any of the following things:—

(a) Give any security or undertaking for the payment of money on account of the partnership.

(b) Release any debt.

(c) Enter into any bond or become surety for any person, or do anything whereby the property of the partnership may be seized or taken in execution.

(d) Assign or mortgage his share or interest.

(e) Hire or dismiss any clerk or servant.

(f) Enter into any contract of purchase above the value of £10.

14. On the 30th day of November in every year a general account shall be taken of the assets, liabilities, and transactions of the partnership, and shall, after final audit, be signed by each partner, who shall, thereafter, be bound by such account.

15. If any partner shall die, retire, or become bankrupt during the partnership or suffer his share to be charged, or become lunatic or incapable, or commit misconduct under Section 35 of the Part-

This is to obviate waiting until the end of the financial year and the result of the annual audit.

Under Section 24, every partner *may* take part in the management, but not entitled to remuneration. In certain cases, however, the Court will make an allowance for management to a surviving partner who has carried on the business and retained the capital of his deceased partner.

Unless clause prohibiting the carrying on of any other business is inserted, the partners can only rely upon Section 30, which restricts the payment to the partnership of outside profits to those businesses only which are of the same nature as, and compete with, the firm.

Under Section 5, every partner is agent of firm, and any act which is done for carrying on in the usual way business of the kind carried on by the firm, binds the firm and all the partners unless—

(a) Partner had no authority to act, and

(b) Person with whom dealing either knew that he had no authority, or did not know or believe him to be a partner.

As regards Section C, a partnership may—at option of other partners—be dissolved if partner suffers his share to be charged for his separate debt.

Differences as to ordinary matters are decided by a majority (but no new partner can be introduced or change made in nature of business without consent of all). Majority must act, however, in good faith. No majority of partners can expel a partner unless express power afforded by agreement. (Section 25.)

Sub-Clause (d) prohibits assignment of share. (Assignee of share has in any case only limited rights—not being allowed to interfere in management or inspect books. He is merely entitled to receive share, and must accept accounts.)

Necessary to determine profits, &c., for income-tax purposes, and also to facilitate withdrawal of partners without dissolving firm.

This clause intended to obviate automatic dissolution under Section 32, 33 and 34.

Section 35 also stipulates the occasions when Court may dissolve partnership

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nership Act, his share may, as from such time, be purchased by the remaining partners or partner at a valuation to be made on behalf of all parties by the firm of A. J. D. & Co., and based upon the net value of the share of the outgoing or retiring partner after satisfying all liabilities of the partnership outstanding at the date of dissolution, as shown by the last audited Statement of Accounts or Balance Sheet.

Nothing, however, shall be allowed for Goodwill, and the purchasing partner or partners may exercise this option by 3 months' notice in writing to the outgoing partner or his representatives. The purchase money shall be paid by 4 equal instalments at the end of 6, 12, 18 and 24 months respectively from the date of the dissolution, and shall be secured by the bond of the continuing partners.

In the absence of agreement between the remaining partners (if more than one), then the outgoing or deceased partner's share shall be taken by them in the proportions in which they shall be entitled to share profits.

16. On determination or dissolution of partnership, any partner or his representatives may sign in the name of the firm and publish in the *London Gazette* notice of the dissolution.

(which include lunacy, prejudicial conduct, business being carried on at a loss, and whenever "just and equitable").

This bears on Section 37, which empowers any partner to notify dissolution, and to require any necessary concurrence.

Where a person deals with a firm after change in constitution, he is entitled to treat all apparent members of old firm still being members until he has notice (except that an estate of a partner who dies, or a dormant partner who retires, is not liable for partnership debts contracted after death or retirement under Section 36). The same exception applies to bankruptcy, but *London Gazette* is not, however, sufficient notice to old customers, to whom direct notice must be given.

It is sufficient, however, in the case of persons who had no dealings with the firm before date of alteration.

On principles of estoppel, anyone—though not actually a partner—holding himself out as a partner, or allowing others to do so, may be liable for contracts.

There is an exception to this rule, however, where a partner dies and partners continue in old firm name (even though no notice of death given).

A dormant partner may, however, retire without giving notice, and a former partner is not liable for holding out by mere continuation of the old firm's name "& Co."—but estoppel applies to a former partner who retires without giving proper notice of dissolution.

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17. Any difference or dispute arising in connection with the partnership shall be referred to arbitration under the Arbitration Act, 1889.

If, therefore, partner commences an action, Court will ordinarily refer matter to arbitrator.

N.B.—Under Section 27, if partnership for specified term is continued or continuance on the old terms is presumed—so far as consistent with a partnership at will (e.g. the arbitration clause would cover continuing partnership—also right of surviving partner to purchase share; but *not* a clause for expulsion or special methods for realisation of assets).

Subject to agreement, the share of a retiring or deceased partner is a simple contract debt, and surviving partner is not a trustee. Claims, therefore, must be made within 6 years, or else be statute-barred.

IN WITNESS whereof the parties hereto have hereunto set their hands and seals the day and year first before written.

SIGNED, SEALED AND DELIVERED
by the parties hereto in the presence of
NEVILLE HOBSON, *Solicitor*,
Beverley.

} A. B.
C. D.
E. F.

[The following memorandum explains the general circumstances under which the above deed was entered into, and, moreover, draws attention to certain consequences which are liable to ensue when a partnership is entered into without properly drawn articles.]

Memorandum.

The new firm has purchased the entire properties, book debts, and business assets generally—including the Goodwill—of the late firm of "Slick & Co." (Messrs. "X" and "Y"), who formerly carried on a similar business—which was merely the subject of a very informal partnership agreement. Consequent upon the absence of a formal and properly drawn deed, the junior partner "Y" gave notice to his other partner of dissolution, and forced upon him a sale of the entire partnership assets. The senior partner "X" did not give effect to the original notice of dissolution served on him, and the junior partner applied to the Chancery Division of the High Court, under Section 35, to dissolve the partnership on the ground of

- (a) Prejudicial conduct.
- (b) Business being only carried on at a loss.
- (c) That it was "just and equitable" to wind up.

The Court appointed a Receiver and made the usual order for accounts. The old senior partner objected to a sale of the real properties on the ground that they had belonged to him personally, but the Court ruled that they had been brought into the Capital of the business, and treated as part of the Capital in the firm's books.

As the senior partner did not stipulate in his partnership agreement for a larger share in the Capital of the partnership on dissolution, the Court held, under Section 24, that each partner was entitled to share equally in both Capital and Profits, and they further ruled under Section 39 that all pro-

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perty should be sold, and the net proceeds divided among the partners in accordance with their respective shares in the Capital (*Derby v. Derby*).

The Court made the usual order giving each partner power to bid and fixed the reserve, and the *Goodwill* of the business was included in the sale. The entire partnership assets were purchased by this firm (whose articles of partnership are now recorded).

Even though the Goodwill of the old firm was sold to the new partnership at the auction, the Vendors ("X" and "Y") may carry on a competitive business, but not under their former name. They cannot, however, represent themselves as continuing the old business, and must not canvass old customers (*Trego v. Hunt*).

Subject, however, to the right of a purchaser of a Goodwill, each and every partner of a firm is free, after final winding-up (but not before all the property has been disposed of), to use the old partnership name, provided he does not expose any old partner to liability.

Schemes of Profit-Sharing.

By A. E. Barton.

The following essay on Profit-Sharing was awarded the first prize in an Essay Competition held by the Liverpool Chartered Accountants Students' Association.

It may be said, without fear of violent dissension, that one of the primary, fundamental objects of all human thought is definition-seeking. Whether it be the definition of the laws of the universe, or of matters of relative triviality, the principle is the same. This is the synthetic process; the process by which we consolidate the whole of our knowledge upon a subject, and then endeavour to propound a formula which shall give it abstract meaning; which shall, in a word, crystallise it. Conversely, given a definition, given the crystallisation of a subject, it becomes necessary to resolve it into its various elements. This is the analytic process. Without such crystallisation, completely relevant analysis is impossible.

The International Co-operative Congress in 1902 defined profit-sharing as "an agreement freely entered into, by which the employees of a concern receive a share, fixed in advance, of the profits." It thus appears that the essential features of a scheme of profit-sharing are: firstly, that the amount to be distributed to the employees varies with, and depends upon, the net profits of the enterprise; secondly, that the proportion of profits to be distributed is definitely determined in advance; and thirdly, that the method of determining individual shares is known, at least in a general way, to the participating employees. Consequently, any scheme under which the amounts distributed do not vary directly with the profits, or the proportion of the profits allotted to the employees is not definitely known, cannot be called "profit-sharing" in the strict sense. It is interesting to note here that, paradoxically enough, co-operative societies themselves are not profit-sharing, as their employees are paid only by wages, and do not participate in the profits unless they happen also to be customers.

Profit-sharing schemes conforming to our definition are by no means of recent origin. It is said that in the early part of the nineteenth century a certain factory-owner remarked to one of his foremen, "If my men liked, they could save me £10,000 a year by better work and the avoidance of waste." "Then," replied the foreman, "why don't you pay them £5,000 a year to do it." It is evident from this that although at the time no actual schemes were in operation, the germ idea was already there; for from the employer's point of view, this idea of better work and the avoidance of waste is the basis of all profit-sharing schemes.

The first really authentic instance of profit-sharing is that of a Frenchman, who, in 1840, made a calculation, and discovered that by greater care each of his 300 workmen could save him 60 centimes a day, which was at the time the rate of pay for one hour's work; further, that the same men could save in addition, by the avoidance of waste, 25 centimes a day. In all, he found that each man could save in a year 255 francs. For two years he prepared and educated his employees with a view to introducing a scheme by which they would benefit by their own care and industry, but his efforts were received with suspicion, the men believing that he was trying to reduce their wages by some peculiarly fantastic means. Practical demonstration appeared to be the only way out of the difficulty, and one morning the employer assembled his men, deposited a bag on a table, and proceeded there and then to distribute more than 12,000 francs to those whom he considered to be entitled to it. The workmen, although naturally bewildered by such apparent prodigality, promptly accepted his scheme, and from this dramatic beginning has grown a permanent and very complete organisation, which still exists in substantially the same form as it was when initiated.

The firm consists of two managing partners. Five per cent. is paid on their capital; of the remaining profits, 85 per cent. is distributed among the employees, 15

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per cent. only being taken by the partners, who, however, receive a salary in addition. Of the 85 per cent. paid to labour, 50 per cent. is paid in cash as dividend upon the wages, averaging about 20 per cent. on the wages of each man; while the remaining 35 per cent. goes to an internal provident society, which provides sick benefits, old age pensions, and so forth.

The business, which is that of painting and decorating, has increased enormously since the scheme was instituted, the employees have been given a large measure of control of its administration, and particularly of the provident society. It is stated that the workmen are sober, disciplined, and industrious, strikes are unknown, and there are no instances of any kind of slackness, notwithstanding the fact that the men are at times scattered all over France.

This scheme may be regarded as the standard, and in essentials it will be found that the great majority of existing schemes are based on it.

In England, the type of business which has been most widely affected by profit-sharing is gas undertakings. The pioneer in this respect was the South Metropolitan Gas Company, of London, which introduced, some twenty years ago, a scheme whereby a sum depending upon the economy of production was distributed annually to regular workers in proportion to their wages. At first the share of each man was paid wholly in cash, but it was found, for various reasons, that this procedure was undesirable; it was, therefore, decided that employees should be compelled to invest half their yearly share in the company. In this way about half-a-million pounds' worth of shares has been acquired by the employees, who number some 6,000, and it was finally decided that they should be allowed to elect three representatives to the Board of ten directors.

It is significant that this scheme has spread to fully half of the gas companies in England, and it has been equally successful in each. It has resulted in better relations between capital and labour, better work, and cheaper gas to the consumer—"a consummation devoutly to be wished."

Notable among profit-sharing schemes in other industries is that of Messrs. J. T. & T. Taylor, Ltd., woollen cloth manufacturers, of Batley. After providing for depreciation and various contingencies, and paying 5 per cent. on the share capital, the remaining profit is apportioned between capital and wages in proportion to their respective amounts. In other words, any rate of dividend above 5 per cent. received by capital is also declared on the total year's wages. The bonus is not given in cash, but in fully-paid shares, but the dividend on these shares is paid in cash if desired.

This scheme also has proved a great success. Since its inception, the business has multiplied, and the rate of profit has been uniformly high. The average dividend on shares is $12\frac{1}{2}$ per cent., and consequently on wages $7\frac{1}{2}$ per cent. There are 1,500 employees, about 1,200 of whom hold shares to the total value of £70,000.

Profit-sharing in the United States has seemingly not yet found its legs. The number of actual schemes does not exceed sixty, although there is a large number of bonus schemes, which do not come within our definition, as in most cases they do not depend upon the profits.

Two of the existing schemes, however, are of considerable interest to us; one because of a certain novelty of administration, the other because of its completeness and adequacy.

In the first case, after paying a 7 per cent. dividend, the remaining profit is divided between the shareholders and the employees in the ratio that the total wages bears to the total invested capital. All employees who have served nine months during the year are eligible to participate; all casual labour is ineligible. The employees each year appoint a Chartered Accountant to ascertain the actual profits—indisputably a very wise procedure. Half his fee is borne by the company, the other half by the employees. The latter have also the privilege of electing a committee to act on their behalf generally.

In the second case, the capital consists of "preferred stock" and "common stock," in 100 dollar shares. The profit is ascertained each year by the somewhat abstruse method of re-valuing the assets and liabilities. Out of this profit, firstly a 5 per cent. dividend is paid on the Preferred Stock; secondly, a 5 per cent. dividend is paid on the Common Stock, which under no circumstances receives more; thirdly,

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5 dollars for every share of stock is paid into a so-called "stock-purchasing fund"; fourthly, 10 per cent. of the remainder is transferred to a Sinking Fund; and fifthly, the other 90 per cent. is paid to the preferred stockholders as extra dividend, and to the employees. The several amounts paid to the employees and preferred stockholders are in proportion to the wages of the former, and to the initial 5 per cent. dividend of the latter; the amounts in each case are paid one-tenth in cash, and nine-tenths in Common Stock. All employees who have served two years are eligible, but each one participating must sign a contract to deposit stock which he receives under the scheme, and only to sell this stock to the company. If an employee leaves the company, the company may purchase his stock at the market-price, without his consent; hence the "Stock Purchasing Fund." Employees may retire after 25 years' service, and the company cannot then purchase their stock without their consent.

In the actual working of this scheme, the dividends paid amount to as much as 60 per cent. of the regular earnings of the employees, 65 per cent. of the total staff participate, and the employees hold some 67 per cent. of the entire Common Stock, which is equal to 54 per cent. of the total invested capital of the company.

The advantages of this scheme are sufficiently obvious as to make it platitudinous to enumerate them. Its thoroughness, its absolute fairness to both the company and the employees, its substantial benefits, and its wide scope, need no further commendation. It is wholly admirable.

Reverting from the particular to the general, we may now proceed to draw certain conclusions from the various schemes which we have considered. In each case, the Profit-sharing Fund is determined by the stipulation of an initial sum to be devoted to dividends on capital. This fund is then apportioned between capital and labour on a stated, definite basis. In no case are all the employees eligible to participate, certain conditions of service being imposed. Individual shares are computed by means of the total wages paid to each employee during the year. The form of payment varies, payment in shares being favoured as against payment in cash. The schemes appear to be equally applicable to all kinds of businesses, irrespective of superficial appearances of suitability, although the actual sums of money distributed undoubtedly vary considerably with different classes of industries. Further, the size of the establishment does not appear to affect the schemes vitally, the only difference being that the percentage bonuses are smaller in the larger concerns. Naturally, the benefits accruing to the employees vary greatly with each individual business, and consequently no fair average can be obtained. As regards the employers, it is almost invariably found that the introduction of a profit-sharing scheme results in far greater economy of production and increased profits; even in the most generous schemes, however greatly the employees benefit, increased dividends are incidentally secured. The cost of administration to the employers is said to be very low, the average of what figures are available being about 3 per cent. of the wages paid.

In conclusion, the causes of failure of the few profit-sharing schemes which have failed have been more on the moral than the material side. Mutual suspicion and distrust between the employers and the employees, and lack of honesty and altruism on the part of the former have combined to wreck the schemes. In the great majority of cases, however, the success has been sufficient to make the extension of the system of profit-sharing an urgent and vital necessity, if we are to see a cessation, or at least a mitigation, of labour troubles and their disastrous sequels.

Retail Accounting Problems.

By V. W. Isherwood.

In the following article Mr. Isherwood, the Chief Accountant of the Lamson Paragon Company, describes some accounting problems of retailers, and outlines some of the methods designed by his firm to facilitate bookkeeping and save unnecessary posting.

Accounting problems in a retail store differ very greatly from those met with by the accountant in a large manufacturing business.

Taking the retail dry goods trade as our first example, let us make a few imaginary purchases and afterwards follow the transactions up to the moment when the cash paid for the goods is safely deposited in the bank.

We enter the store and having decided upon the goods we wish to buy, it is necessary for the assistant to find out whether we wish to take the goods with us or have them sent. Further, whether we wish to pay cash for the purchase or whether we wish the transaction to be "charged," and, if the latter, the assistant must make sure that the transaction is permissible.

In an average store there are four main classes of sales transactions:—

1. Cash and Take.
2. Cash and Send.
3. Enter and Take.
4. Enter and Send.

The sales checking system must be of such a nature that it protects all parties to the transaction, no matter which of the four categories the sale falls under.

The customer must have a voucher for the cash paid, or a bill in case of an "entry" transaction; the proprietor must have a record of the transaction by which he may balance his cash or from which he can post the amount to the customer's account; the assistant must be able to account for the goods sold. If the goods have to be sent, the correct name and address must be recorded, and the system is incomplete unless there is some provision made for checking the actual despatch of the goods, for it is admitted that there is frequently a serious leakage in despatch.

The entire transaction is surrounded by possible avenues by which profit can be converted into loss.

1. Were the goods sold at the right price?
2. Was the extension of the sales slip accurate?
3. Was the addition of the sales slip correct?
4. Was the amount received by the cashier correct?
5. Was the change correct?
6. Was the customer entitled to credit?
7. Were the contents of the parcel exactly the same as the goods described on the sales slip?

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8. When the goods were sent to the despatch department, how did the packer know that the sale was authorised—that either the cash had been received in payment or that credit had been duly sanctioned?
9. Finally, how did the vanman know that the parcel itself was authorised for removal from the premises?

Serious leakages may and do occur at every stage of a retail transaction. The human element cannot be made automatically accurate and reliable.

One fundamental principle emerges—there can be no security without a written, detailed, record of every transaction, in duplicate and in some cases in triplicate.

Cash tills, mechanical or otherwise, do not give detailed records, and, consequently, a mistake made is immediately buried beyond reach of post mortems. With a written detailed record errors are soon detected and many mistakes are capable of correction before any loss is incurred. In other cases the mistake may result in a total loss, but the party responsible is at once located, and this fact in itself makes for greater care and watchfulness.

In other trades, as, for instance, the provision trades, the problems are again different.

Here we find the transactions handled so swiftly and at such high pressure that it becomes difficult to provide a written detailed record of every CASH transaction, although it is, of course, quite obvious that without this detailed record there is very little chance of an error being detected.

Apart from any other consideration, handling of cash by the assistants is undesirable in that it causes them to lose time, a factor of great importance in a busy shop.

There is a Paragon system which meets the case perfectly. The customer makes a purchase, the assistant writes the amount of the transaction in a duplicate book, tearing off the top portion and handing it to the customer, who takes the slip to a conveniently situated cash desk and there pays the stated amount. The cashier stamps the slip, tears off the stamped portion and returns it to the customer, who then hands this receipt to the assistant in exchange for the goods which have meanwhile been packed up. No time is lost by this system, and it is not possible for goods to leave the establishment without having been paid for.

The grocer has also to deal with another class of sale. A customer will call and leave an order for an assorted collection of provisions, or the grocer's salesman may book such an order whilst "on round."

There is no time for recopying. The first entry of such an order must be the last. The order is taken down in a Paragon book, the original is sent to the customer and the duplicate retained.

The re-copying of charge transactions into a Day Book is obviously a gross waste of time, yet if the record of such transactions is either loose or is fixed in a book that may be in use at the counter, re-copying becomes imperative.

The Paragon Self Binder provides a means of filing the duplicates of charge transactions in such a form that the volume so created actually becomes the Day Book, from which the totals only of each transaction may be posted into the Sales Ledger, or, better still, to the customer's statement, by means of the Paragon "Life-Leaf" Duplicate Statement System.

The Duplicate Statement is an idea that has made great headway during the past few years. In place of posting the sales transactions into the Ledger, then at the month end making out the statements from the Ledger entries, the method is reversed. The sales transactions are posted daily

Retail Accounting Problems.

direct to the Monthly Statements, which are in duplicate and contained alphabetically in a "Life-Leaf" Binder. At the month end the statements are totalled, and the totals only are then posted in the Ledger. At the same time any amounts outstanding in the Ledger are added to the total shown on the Statement Form, which then shows the amount due to date. The statements are then detached from the duplicates, posted, and the duplicates removed from the Current Binder to the Transfer Binder, thus leaving the Current Binder available for the next month's accounts.

Rush work at the month end is avoided, mistakes in posting are reduced, and the merchant gets his money in more quickly because there is no delay in getting his statements out.

All kinds of subsidiary transactions are safely protected by Paragon Systems—"Approbation," for instance, a bugbear to the retail dry goods trade.

"Safety first" is the essential point in every retail system. The next point is to combine complete protection and adequate safeguards with simplicity. It is so easy to elaborate systems, and in the retail trade there is no time for elaboration. Any system installed in a retail business must, to be successful, combine the minimum of clerical work with a maximum of security.

The Lamson Paragon Company does not provide "cut and dried" systems. It recognises and caters for the wide differences that exist between apparently similar businesses.

Accountants will find the Lamson Paragon Company ready and willing to co-operate with them in the arrangement of retail accounting systems, and the international experience of this great firm in retail sales problems constitutes a unique service well worth taking advantage of.

A Mock Shareholders' Meeting.

The Auter-Gowell Scooters, Ltd.

The members of the Bristol Chartered Accountants Students' Society spent a very merry evening on January 5th, when they met at Stuckey's Restaurant, Bristol, to hold a mock company meeting. For the purposes of debate, prominent members of the Society had drawn up a most amusing directors' Report and Balance Sheet of a delightful concern, which purported to trade under the style of the Auter-Gowell Scooters, Limited. Their gathering took the form of the annual meeting—the 13th!—of the company, and the proceedings showed that the finances of this Gilbertian concern were in a really amazing state.

The directors of the company were stated to be as follow—their real names are given in parentheses:—

Chairman.—Sir I. Taky-Teasy, Bt., K.G. (Mr. Gerald F. Todd, F.C.A.)

Managing Director.—Viscount Magneto. (Mr. A. Stanley Brooks.)

A. Sparke Plugge, Esq., O.B.E. (Mr. F. L. Parry.)

C. A. Canny, Esq., M.C. (Mr. C. Paterson, Hon. Treasurer of the Students' Society.)

N. B. U. Suttall, Esq., M.B.E. (Mr. A. H. Davis.)

Vivian Crank Shaft, Esq., C.B.E. (Mr. A. E. D. Tribe.)

Solicitors.—Shady Brief & Co.

Auditors.—Overlookum, Drudge & Co. (Represented by Mr. C. H. Young.)

Secretary.—V. Clever, Esq. (Mr. F. MacGregor Fry, Hon. Secretary of the Students' Society.)

Sir I. Taky-Teasy (who, in real life, is President of the Students' Society) presided over this capital burlesque meeting. All the directors of the company were present, with the exception of A. Sparke Plugge, Esq., from whom a letter of apology for absence was received. His letter, which was dated from Czechoslovakia, was read by the Secretary as follows:—

"Dear Mr. Clever,—I very much regret that circumstances over which I have no control—to be quite frank, the new patent auto-scooter, which I am taking for a trial run—(laughter)—will prevent me from attending the general meeting of our company on the 5th. I think that with a smooth road, no wind, and no rain, hail, sleet, snow, mud, slush, or tram lines, the scooter could attain a speed of quite five miles per hour, without deduction of tax for a short time. (Laughter.) Please convey my regrets to the Board and the bored, and accept the best New Year wishes. Can you let me have a couple of thousand pounds or more within a day or two?" (Laughter.)

From Dreamy Chambers, Cork, the Auditors wrote:—

"We beg to inform you that untoward circumstances of a confidential nature will prevent our Mr. Overlookum from attending your annual general meeting on the 5th January. He is suffering from a complete nervous collapse, due to the strain imposed upon him in auditing your company's books, and has handed over your work to his partner, Mr. Drudge—(laughter)—who will have the greatest pleasure in attending your meeting."

The following is a copy of the Report and Accounts:—

1. The directors have pleasure in submitting their 13th annual report of the above company, and would like to congratulate the shareholders on the successful year's trading.

2. In view of apparent difficulties in trading, and the inability to obtain money, the directors feel they should conserve cash, and do not recommend a dividend, but propose that a distribution be made when they have disposed of the purchases made from the Slow Depot.

3. All the directors retire this year by rotation, and though ineligible, offer themselves for re-election.

4. The term of office of the auditors having expired, they wish to point out that they do not offer themselves for re-election.

I. TAKY-TEASY,

Chairman.

15th October 1920.

A Mock Shareholders' Meeting.

THE AUTER-GOWELL SCOOTERS, LTD.

Dr. MANUFACTURING, PROFIT & LOSS ACCOUNT for the year ended 30th September 1920. *Cr.*

	£	s	d		£	s	d
To Stock-in-Trade 1st October 1919	By Sales, less Returns ..	..	..	85,950 0 0
" Purchases less Returns	" Stock-in-Trade, 30th September 1920 ..	..	..	30,000 0 0
" Manufacturing Wages				
" Fuel and Light				
" Balance, Gross Profit				
							£415,950 0 0
To Rent, Rates, &c., and Insurance	By Balance ..	..	..	195,450 0 0
" Advertising, Printing and Stationery	" Rents Receivable ..	..	..	200 0 0
" Horsekeep, &c.	" Interest from Investments—Net ..	..	..	1,400 0 0
" Oil, Tallow, Grease, &c.	" Profit on Realisation of Investments ..	..	..	2,000 0 0
" Fuel and Light	" Bank Interest ..	..	..	1,000 0 0
" Office Wages and Salaries and Commission	" Increased Value of Goodwill ..	..	..	2,100 0 0
" Discounts and Allowances				
" Repairs and Renewals: Buildings £3,000, Plant £2,000				
" Sundries £1,000				
" Directors' Fees, Travelling and other Expenses				
" Cigars, Cigarettes, Wines and Spirits				
" Patent Renewals				
" Bank Charges				
" Debenture Interest—Net				
" Law Costs and Formation Expenses				
" Accountants' Charges and Audit Fee				
" Income Tax Sch. A. £4,000, Sch. I. £33,000. Super Tax £2,000				
" Excess Profits Duty				
" Corporation Profits Tax				
" One Year's Dividend on Preference Shares				
" Balance				
							£202,150 0 0

BALANCE SHEET as at 30th September 1920.

	£	s	d
Nominal Capital, £100,000			
Issued Share Capital:			
50,000 6% Cum. Pref. Shares £1 each Fully Paid	£50,000		
50,000 Ordinary Shares of £1 each, 10/- paid ..	£25,000		
Less 9/- per share in arrear ..	11,250		
on 25,000 shares			
1,000 5% 1st Mortgage Debentures of £10 each ..	10,000		
Less: 900 redeemed this year ..	9,000		
The Philanthropic Bank Ltd. Loan	1,000	0	0
Sundry Creditors: On Open Account	32,000	0	0
£15,000; Bills Payable £7,500 ..	22,500	0	0
Debenture Redemption Fund ..	500	0	0
Profit and Loss Account, Balance per last account ..	£25,000		
Add Profit year to date ..	75,000		
	100,000	0	0
	£239,750	0	0
V. CLEVER, Secretary.			

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the books and accounts of the **Auter-Gowell Scooters, Ltd.**, for the year ended 30th September 1920, and have obtained all the information and explanations we have required, but we desire to draw the attention of the Shareholders to the following point, viz. :—

The item on the Profit and Loss Account "Increase in value of Goodwill" in our opinion should not be credited to this account.

Subject to this one observation we certify that the above Balance Sheet is properly drawn up so as to exhibit a true and correct view of the state of the Company's affairs according to the best of our information and the explanations given to us, and as shown by the books of the Company.

OVERLOOK, DRUDGE & Co.,
Chartered Accountants, Auditors.

Cork, October 15th 1920.

A Mock Shareholders' Meeting.

The Chairman, in moving the adoption of the directors' Report and the Balance Sheet, said it gave him very much pleasure to place before them such magnificent accounts. Though he had no head for figures—(laughter)—he was able to say that they had had a very successful year. The usual thing that chairmen now had to do was to run down the Government, and the income-tax and the corporation profits tax, and, not least, the Excess Profits Duty. He, however, was going to follow the advice of a man who had said that an after-dinner speech should be like a lady's skirt—just long enough to cover the subject, and short enough to be interesting. (Cries of "Shame," laughter and applause.) During the year they had obtained from the Philanthropic Bank, Ltd., a loan of £52,000. (Applause.) They had been very fortunate in this, for they had been recommended to approach the Ever-Failing Bank, Ltd.—(since in liquidation—laughter)—but owing to the foresight of the Board they had negotiated the loan with the Philanthropic Bank. On the assets side they had goodwill—he did not think there was any need to make any remark upon that point. (Laughter.) They had gone in for a small expenditure in fitting up a new board room. (Laughter.) In regard to motors, vans and tractors, they had a few months back bought up, on the advice of their managing director, a little dump at Slow. (Laughter.) They could not hold stock and cash at the same time—if you held more stock you had less cash. (Laughter.)

Viscount Magneto, in seconding the resolution, said he thought the profit on the year's trading, which amounted to £75,000, was phenomenally good on a capital of £100,000. It would be noted that in their report the directors stated: "In view of apparent difficulties in trading, and the inability to obtain money, the directors feel they should conserve cash, and do not recommend a dividend, but propose that a distribution be made when they have disposed of the purchases made from the Slow Depot." On the whole, he thought that was a wise decision, because, after all, what on earth would the shareholders do with the money? They would only spend it, or put it on horses, or into the Ever-Failing Bank, or something of the kind. (Laughter.) It was just as well to have a nice substantial reserve for directors' fees this year, as in the past year they had been hopelessly underpaid. The Secretary, who had been with the company since it was floated, had informed him that originally they were a coal mine; then they turned their attention to silkworms, but as something went wrong with the silkworms they were now making scooters. (Laughter.) He thought the name of the company was a good one; the scooters auter go well, but as a matter of fact they did not go at all. (Laughter.) The speed of five miles an hour of which they had heard was an exaggeration, for the scooters did not do it. (Laughter.)

The Secretary: I think they can manage it down hill. (Laughter.)

Viscount Magneto, continuing, pointed out that in the accounts there was no single item for standing charges. This was a pity, because that was all the scooters did—they did a lot of standing. (Laughter.) On the debtor side of the Profit and Loss Account there was a trifling item of £2,100 for cigars, cigarettes, wines, and spirits. He anticipated that a number of people would criticise that, so he might as well take the bull by the horns. As managing director, he was able to inform them that there had been no strikes in the company. Why had there been no strikes? Because they had created happy homes for the people. (Laughter.) All their workpeople had been provided with cigars, cigarettes, wines and spirits, so that the sum of £2,100, to which he had referred, represented the spread of the spirit of goodwill. (Laughter.) A little petrol was also used to test the scooters before they were sent out to the customers. He regretted to state, however, that he understood the solicitors' costs were going to be heavier in the ensuing year owing to allegations by customers that the company had falsely represented that the scooters would go. (Laughter.) Altogether, he thought they might say that the company had had a most successful year. The shareholders had got absolutely nothing out of it, and that was quite right—it was just as it should be. The directors had received a beggarly £30,000, of which the managing director got £10,000—but no matter. He was sorry to say that only one of the auditors was present, as the other had gone to America for a rest. (Laughter.)

The Secretary, replying to various criticisms of the Balance Sheet, put forward by shareholders, stated that as the accounts had been printed, he was unable to have them altered. He admitted that there were a few slight "printer's errors." For instance, in the item for patent renewals, a figure 2 had been inadvertently omitted. The item stood in the Profit and Loss Account as £2,000, whereas the sum should have been £22,000. (Laughter.)

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Some scepticism was exhibited by shareholders as to the absence in Czecho-Slovakia of Mr. Sparke Plugge. Finally, with refreshing candour, Viscount Magneto freely admitted that his colleague was not actually in that distant country. "As a matter of fact," he said, "Mr. Sparke Plugge is travelling from Gloucester to Bristol (40 miles), on one of our scooters of the latest pattern, and he will be here in about a week." (Laughter.)

The directors were also heckled in a most laughable manner as to their curious conduct in reference to the redemption of debentures, payment of income-tax (£39,000), excess profits duty (£100), and corporation profits tax (£5,000).

A shareholder called upon the Secretary to read the minutes of the last general meeting of the company.

Viscount Magneto: The minute book has been burned. It was an accident. (Laughter.) A question being raised as to the authority for the payment of directors' fees, he replied that such payments were authorised by Article 324, which he happened to have memorised. (Laughter.) It read: "The fees payable to the directors shall be at the discretion of the shareholders, but in all cases where the profits for the year are not less than £75,000, the directors' fees shall be not less than £30,000." (Laughter.) Answering a further question he said he could not remember what article empowered the directors to borrow money from the company. "But the directors agreed that we could do it, and we just took it." (Laughter.)

Mr. S. W. Cornwell stated that from sources inside the office he had discovered that the profit for the year had been £95,000. The directors, therefore, had a secret reserve of £20,000—doubtless for the benefit of the shareholders. (Laughter.) £5,000 for corporation profits tax appeared to be a large sum, but as he understood the real liability under that head was 10s., there was a further £4,999 10s., which the directors, in their wisdom, had secretly put away for the benefit of the shareholders. (Laughter.)

It having been pointed out by a shareholder that nothing had been allowed for depreciation, Mr. Crank Shaft replied that their policy in the past had been that they had allowed for depreciation heavily every other year. They had already done remarkably well, though practically no scooters had been seen upon the roads; and now people had got over their fear of scooters, they expected to do still better. They proposed shortly to put on the market a racing scooter. (Laughter.)

Mr. Cornwell observed that he had attended each of the annual meetings, and at each the same statement had been made, that depreciation was allowed for every other year. (Laughter.)

Viscount Magneto: I don't believe you are a shareholder at all. How many shares do you hold in the company?

Mr. Cornwell: One, sir. (Laughter.)

Mr. Crichton Jones: May I ask what motive power is used for the vans and tractors?

Viscount Magneto: If you look half-way down the debtor side of the Profit and Loss Account you will see the word "spirits." That is petrol. (Laughter.)

Mr. Jones: I was under the impression that was motive power for the directors. (Laughter.)

Viscount Magneto: It is an inclusive term, gentlemen. (Laughter.)

The directors then came in for some severe criticism, it being alleged that they were aware that there was a deficiency of £20,000 in cash, which the Chairman had taken in order to pay gambling debts—in fact, the complaining shareholder alleged that the Chairman had paid him that sum.

Lord Magneto: If it was a gambling debt the Chairman can recover it. (Laughter.)

Another shareholder suggested that if the directors required any refreshments they ought to appear in the Profit and Loss Account under the heading "horse keep." (Laughter.)

An amendment that an independent auditor be appointed to go into the accounts before their adoption was defeated, and the report and accounts were reluctantly adopted, and the directors and auditors were re-appointed without enthusiasm.

Mr. Cornwell, in moving a serious vote of thanks to Mr. Todd for presiding, said they keenly appreciated the interest he took in the Students' Society.

Mr. Todd, in acknowledging the vote, which was heartily carried, said he felt it an honour to have been appointed President of the Society for the year. There was evidence that the Society would thrive, and be a very live body, and that it would give its members greater interest in the accountancy profession and all that it stood for. (Applause.)

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(Incorporating the Accountants' Students' Journal and the Administrator.)

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No. 456

De Omnibus Rebus.—I.

By Dr. D. F. de l'Hoste Ranking, M.A., L.L.D.

An attempt will be made in these articles to discuss points of interest arising out of legal cases without technicalities, and as an ordinary layman might view them. There is no absolute reason why legal decisions should either be dull or overladen with verbiage. It is hoped that these random thoughts may induce students to direct their attention to points which they would otherwise overlook.

An eminent physician has lately been impressing on the public generally the importance and efficacy of "physical jerks" in promoting the health of the bodily system, and preventing premature atrophy of some of the physical powers. If this is so beneficial to the body, a somewhat similar benefit should accrue to the mind from a careful course of "mental jerks"; tending to prevent stagnation of ideas, and encouraging the review of preconceived opinions which have become, so to speak, ossified.

It would be difficult to find a more thorough and invigorating form of mental gymnastics than is afforded by a careful consideration of some legal decisions as they appear from time to time in the reports. The reader often comes upon fresh decisions which oblige him to reconsider his whole point of view; and which will sometimes make him start and gasp as if he had just received a cold douche, so startling do they seem to him, and so opposed, not only to his own views and opinions, but to what he had always supposed to be the law laid down on the point.

To an active and healthy mind the experience is just as invigorating as a cold douche; the shock will arouse the intelligence of the person experiencing it, and cause him to examine into the reasons for the shock. He will revise his opinions and see where if at all he was wrong, and he may even come to the conclusion that perhaps it is not he but the decision which is wrong; for he will remember that in the words of a well-known Bishop, "we are none of us infallible; not even the youngest of us"; and that two different judges may take diametrically opposite views as to what is or is not the law on a particular point, and that even the most learned judge may occasionally "misdirect" himself on a point of law.

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Mental exercise of this kind is never thrown away; it is not only invigorating and beneficial, but absolutely essential to anyone who aspires to excellence in any profession, such as accountancy, which brings him constantly into contact with legal decisions.

Company Law alone, a branch of study with which accountants are almost as much concerned as solicitors, will provide ample food for meditation. Take the simple case of the right of a holder of shares to vote in respect of those shares. It had already been decided (*Marks v. Financial News, Limited*, 1919, W.N. 237) that under the common form of articles, which gives power to any person becoming entitled to shares on the death of a member either to be himself registered in respect of the shares, or to transfer them, the executor of a deceased member, though not himself registered, may, on satisfying the directors that he is entitled to transfer the shares, vote in respect of them.

We now find that the power to vote may remain, even though the personal interest of the holder may have come to an end. Disclaimer by a trustee in bankruptcy terminates the rights and interest of the bankrupt in the property disclaimed, but does not affect the rights of third parties. A shareholder has mortgaged his shares, but becomes bankrupt; the trustee disclaims the shares, thus terminating the interest of the bankrupt; his name is not, however, removed from the register, since there is a legal owner, the mortgagee; the bankrupt can still, under the direction of the mortgagee, vote in respect of the shares in which he has no longer any personal interest. (*Wise v. Lansdell*, 37 T.L.R. 167.)

Again, you are, as accountant to a company, asked whether a director who has acted for only a portion of a year is entitled to any portion of his remuneration, such remuneration being fixed at a lump sum for the year. Relying on cases previously decided, such as *Salton v. New Beeston Co.*, or *Inman v. Ackroyd*, you say that the director has no claim, but you are wrong; a Divisional Court has recently decided that this remuneration is "salary" within the meaning of the Apportionment Act, 1870, and, therefore, the director is entitled to an apportioned part of the remuneration. A Divisional Court has also given a decision with regard to Bills of Exchange which may be the means of removing some anxiety from the minds of the holders of bills purporting to be signed by one or more directors, if it is at all doubtful whether those directors were, in fact, authorised to sign on behalf of the company. The decision is to the effect that, if according to the articles the persons in question might have been authorised to sign, and there is no knowledge on the part of the holders that they were not so authorised, then the holder is in a perfectly good position as against the company, since it is no part of his duty to inquire into the internal management of the company, or to prove an actual authority. (*Dey v. Pullinger Engineering Co.*, 37 T.L.R. 10.) This is in opposition to what the earlier case of *Premier Industrial Bank, Limited v. Crabtree, Limited* (1900, 25 T.L.R. 17) had led one to suppose was the position.

Turning for a moment to decisions in bankruptcy, there is one (*Re G. R. Wigzell; ex parte Hart*, 37 T.L.R. 373) which would seem to lay hard on bankers.

A receiving order was made against the debtor on October 8th 1919. The debtor applied for and obtained a stay of advertisement pending an

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appeal which was dismissed on November 16th 1919, an order for adjudication being made on December 16th 1919. At the date of the receiving order the bankrupt had an account at his bank which was overdrawn. The receiving order, not being advertised, the bank knew nothing of it. After the receiving order the bankrupt paid in amounts to the extent of £165, and payments out were made to the extent of £199. It was held that these sums paid in were property divisible among his creditors and belonged to the trustee in his bankruptcy, since the payments into the bank had not taken place before the date of the receiving order, even though the bank was ignorant of it, and that the bank could not take credit for the amounts which they had paid out on behalf of the bankrupt since these payments again had not been made before the receiving order. It was held that there was nothing inequitable in the trustee claiming this money, and that his doing so did not produce an unjust or dishonest result, since the stay of advertisement which prevented the bank from knowing of the making of the receiving order was at the request of the debtor himself and the trustee was no party to it.

The decision was no doubt hard upon the bank, since they had no notice of the receiving order, but Sections 45 and 46, B.A. 1914, which give protection to certain transactions which would otherwise be invalidated by the doctrine of relation back, do not make notice of the receiving order necessary. The sections say that both payments to and payments by the bankrupt must, if they are to be protected, be made *before* the receiving order. It was pleaded on behalf of the bank, on the authority of *Re Thellusson* (35 T.L.R. 732), that it would be inequitable not to allow the bank to take credit for the amounts paid out, and that the Court had power to order repayment. The Court, however, held that the circumstances were entirely different. In *Re Thellusson*, the debtor, knowing that a petition had been presented, and that a receiving order would probably be made, obtained money as a loan after the order had actually been made, though neither he nor the lender knew of the fact. The major portion of the sum lent was still unexpended when the trustee took possession. The Court ordered that this unexpended money should be returned to the lender, the ground for their decision being apparently that as it would have been dishonourable for the debtor to use this loan, obtained by what was unfair conduct, for the purpose of paying his creditors, it would not be honourable for the trustee to do so. In the present case no such consideration arose; it was simply a contest between the bank as a creditor and the trustee as representing the creditors generally, and there was no reason why the latter should waive legal rights in favour of the former.

In connection with this important subject, *verb. sap!* Let all demobilised officers remember that, though they retain their commissions, and are liable to be called up for active service, they have lost the protection given by the various Courts (Emergency Powers) Acts, and in spite of the war being not yet ended, they cannot avoid having a judgment debt enforced against them. So says the Court of Appeal (*Re a Debtor*, 150 L.T. Jour. 356).

Municipal Finance.—V.

By J. H. McCall, F.S.A.A.

A study of the following article will give the student of Municipal Finance a clear understanding of the very close relationship existing between municipalities and banks. The importance of this point must not be overlooked, for it is upon their bankers that local authorities depend for financial assistance.

Municipalities and Bankers.

It has been previously pointed out that local authorities are dependent upon the financial help obtainable from their bankers, in order to carry out their duties. Consequently, it is essential that the relationship between the two should be cordial and friendly in order to be helpful. There is no reason why this should not be so when we consider that the relationship is to their mutual advantage. It has sometimes been argued, by those belonging to the banking profession, that the advantages from the banker's standpoint are purely imaginary. We will see how far this opinion can be substantiated.

The Services Rendered by the Banks.

The services rendered by the banks are varied, and include the following :—

- (a) They act as general bankers to a corporation.
- (b) They act as agents for the purchase and sale of securities.
- (c) They act as either registrars or agents for the registration and transfer of stock, and for the payment of dividends.
- (d) They lend money for capital purposes secured by mortgage of the rates.
- (e) They do act, in rare cases, as agents for collection of rates.

Bankers' Remuneration.

For these various services the banks make their charges, those for services acting in capacity of agent being on the scale usually charged to any other customers. Bank interest on overdraft has, however, peculiar features which will be discussed in detail later on, but quite apart from the remuneration in cash, it cannot be doubted that the fact of being a Corporation banker places a local branch of a bank, in a provincial town, in a position which carries with it certain advantages; at least we will assume this until we hear of banks showing disinclination to have Corporation Accounts in their books. I do not think it will be denied that in many cases possession of Corporation Accounts has been the means of building up the business of many local branches.

The Bank Manager as Treasurer.

In the case of most of the small urban districts the bank manager is appointed Treasurer to the local authority, a fact which is somewhat

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puzzling to those outside. Under the provisions of the Public Health Act, 1875, every urban authority shall appoint a Treasurer, who must not be the Clerk to the Council. The Act does not state what his duties shall be, so it has been found convenient, in order to fulfil the obligations of the statute, to appoint the bank manager as Treasurer. The effect of this appointment is to place the accounts of the local authority at his particular bank, and in addition to give him some local status as a statutory officer of the local authority. Orders for payment are drawn upon him as manager at the bank, and signed by three members of the Council, and countersigned by the Clerk, and nobody seems to raise the question whether such an order can be truly called a cheque within the meaning of the Bills of Exchange Act. The Treasurer's Account is the Pass Book, but the Treasurer's Cash Book is kept by the Clerk to the authority. The position under the Municipal Corporations Act, 1882, is even more puzzling. The Corporation shall, from time to time, appoint a fit person to be the Treasurer. He shall make up his accounts half-yearly, and submit same for audit, and after the audit of the accounts for the second half of the financial year, he shall prepare a full abstract of his accounts for that year. It is the general practice of Corporations now to appoint their own financial officer as treasurer, but where the bank manager is appointed it will be seen that he holds the statutory title without fulfilling the statutory duties. He has nothing whatever to do with the bookkeeping records other than the compilation of the usual bank Pass Book. All payments must be by order of the Treasurer, signed by three members of the Council, and countersigned by the Town Clerk. This order consists of a list of the accounts passed by the various committees for payment, which is sent to the bank. The actual payments are made by cheque usually signed by the financial officer, the authority of the bank for honouring such cheques being the order. In this case the cheques are drawn on the bank, and not on the Treasurer. It may be some time before such a curious state of things will be altered by statute, but in the meantime the bank manager who holds such an office does enjoy the advantage arising out of the fact that he is an actual officer of the Corporation. He is not, however, in a position to act impartially in matters of bank arrangements, as his duty is to serve his bank first.

Agency Transactions.

It is usual for local authorities to ask their own bankers to transact for them any business connected with the purchase and sale of securities, and in rare instances to act as agents for the receipt of rates for which they receive a specified remuneration. Before a bank can act as agents for the collection of rates, the sanction of the Ministry of Health must be obtained. This permission will be dependent upon certain conditions being fulfilled, one of which is the issue of an official receipt for every amount received. The bank may charge a nominal fee for so acting, but a better business arrangement is to pay a fee of, say, 6d. for every receipt issued. This will have the effect of stimulating the banks to encourage ratepayers to make their payments through this particular channel. It is in relation to the issue of stock, however, that the banks do not hesitate to push forward their claims to act as the Corporation bankers and agents for placing the stock upon the market, and consequently as registrars. This is due to the fact that such a class of work

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is highly remunerative, whilst at the same time it adds to their status on the money market. Corporation bankers in a provincial town are well advertised by the Corporation, the Demand Notes for Rates which are sent out generally containing some reference to them. It must be conceded, however, in justice to the banks, that they undertake for the local authorities a considerable amount of work in connection with keeping voluntary accounts for local Charity Funds, &c.

The Bank as Lenders.

In the case of the smaller local authorities it often happens that the bank will lend money for capital purposes, repayable during the period given in the sanction, secured by a mortgage on the rates. This is not, however, considered a good banking investment, and it is not unlikely that the practice will be discontinued in the future. The banks, however, are lenders to the Corporation for general purposes on current account, and temporarily for capital purposes until permanent loans are negotiated elsewhere. If the accounts of the authority are pooled, it is very difficult for a bank to know what is constituted in the bank overdraft, and as a local authority has no statutory right to borrow money for capital purposes without first having obtained a sanction, the question may arise as to the illegality of the payment of bank interest. It is the duty of the bank to ascertain if the Corporation have borrowing powers, and it is not unusual for them to require a mortgage securing the advances, even though temporary. It will be seen, therefore, that Corporations are entirely dependent upon the bankers to finance them from day to day, so long as their accounts shows an overdraft, and it would be very difficult to know what would happen if the banks refused to lend money to Corporations. They do not refuse, however, as from a banker's standpoint it is quite a commercial proposition on which they may earn interest without taking any commercial risks.

Bank Terms for Current Account.

When we turn to the question of interest charged by the banks on overdraft, we find that the terms to-day vary considerably, not only as between different banks, but as between the accounts of different Corporations with the same bank. There are, however, one or two general features which the banks have always endeavoured to incorporate in the agreement with the Corporation, and the first is the provision of a free balance; that is, when allowing interest on balances at the bank it is stipulated that for the first £1,000 or £2,000, or whatever it is, the bank will allow no interest at all. The banks defend this stipulation for a free balance on the grounds that Corporation accounts are numerous, and involve a considerable amount of clerical work to keep them, and that instead of charging for keeping the accounts, they allow nothing on a certain minimum balance. The second general feature is that the interest allowed on balances or charged on overdraft is one which varies with the bank rate. No objection, of course, can be taken to this arrangement, the only point that really can be questioned is the difference between the rate allowed and the rate charged. There can be no general arrangements which can be successfully applied to all local authorities as the circumstances differ in every case. The main point to be borne in mind when making any arrangements is the probable state of the accounts, that is, if the accounts pooled will be permanently overdrawn, or only at certain periods of the year.

Municipal Finance.

There is also the practice of keeping separate accounts for each Loan Account at the bank which is favoured by many small authorities. The banks have not hesitated to take advantage of what may be classed as bad bookkeeping, by making no allowance for the balances in hand on such accounts, but not forgetting at the same time to charge interest on any accounts which may be overdrawn. The larger local authorities adopt a method of pooling all the Corporation Bank Accounts for the purpose of calculating bank interest, the apportionment of the interest being made in the Accountant's Department.

Municipal Banking.

It must be recognised that, however friendly the relations between the bankers and the Corporation, the latter are entirely in the hands of the former. It is in consequence of this unpleasant dependence that lately experts have been devoting attention to the question of some modified form of banking to be undertaken by the municipalities themselves. If banking is understood in the sense that it is the business of borrowing and lending money, then the question which naturally arises out of it is: Why should not municipalities have greater facilities for the purpose of enabling them to borrow moneys from the public? There seems to be a feeling of apprehension, which is quite without foundation, that the local authority is not to be trusted to exercise common sense. A building society does receive money on deposit in what they call their banking branch, and it has been found very successful as a method of raising moneys for its purposes. We will deal with this phase in a later article, but the question is mentioned here as it should be considered as a factor in relation to the bankers' attitude, which is founded upon the present arrangements. It will also be necessary to refer to bankers in relation to the financial control which is exercised by Government Departments.

Volume XXXVIII.

The first number of the new volume will be published on 1st May, the Index and Title Page to the present volume being included as a supplement.

The Grammar of Law.—III.

By Donald Mackay, B.L.

In applying and interpreting the law it is always a sound criterion to inquire how it affects the State as a whole, and this at once raises the question as to how far State interference is justified. In the following article Mr. Mackay discusses the question of State control both as regards private persons and public bodies.

Personality in Aggregate Bodies.

As already pointed out, the term "person" in law as the subject of a right may mean a plurality of individuals. These aggregate bodies are regarded as one person, and though composed of individuals, are considered as being one and undivided in themselves. Such aggregate personalities or associations or corporations, or whatever they are termed, may receive this character of unified personality from the State by direct grant, or the individuals forming the group may arrange themselves to assume a corporate capacity, and the State in that event recognises their existence as corporations. Thus, the ordinary limited company is a self-formed combination of shareholders which, provided they observe certain regulations, are almost automatically incorporated under the law.

As the subject of a right, these corporations or other aggregate bodies are regarded as persons just like individuals. They can enter into contracts, hold property, carry on definite work, incur debt, sue, and be sued. The real important point distinguishing them from individual human beings is that the corporate life continues, notwithstanding the death of individual members; the institution remains one in spite of the constant change among the individuals who, from time to time, form its members.

It will thus be seen that a corporation has a life of its own apart from the members; it is a distinct *persona* in itself. Is this a mere legal fiction? Some jurists have thought so, and that theory led to important results, the best known of which was the doctrine that a corporation could not commit tortious acts, so that an action for tort should be directed not against the corporation, but against the individual committer of the wrong. This doctrine is not now held in English law. The personal existence of a corporation is there regarded not as a fiction, but as a reality. The Courts have held that if it is once granted that corporations are for civil purposes to be regarded as persons, it follows that ordinary doctrines of agency, and of master and servant, are to be applied to corporations as well as to ordinary individuals. These doctrines have been applied in a great variety of cases, in questions arising out of contracts, and in questions arising out of torts and frauds.

The State and Persons.

Not only have persons rights and duties towards each other, but they have rights and duties connected with the State itself, and the State has

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corresponding rights and obligations in regard to them. We are not called on here to enter into a discussion or definition of the State. For our purpose it may be taken as the governing authority in whatever form such authority may be constituted. A primary purpose of this authority, just as in the case of an individual is its own preservation, growth, and development. All laws, both Common Law and Statute Law, have a reference to this, and in interpreting and applying the law it is always a sound criterion to inquire how it affects the State as a whole. But there are certain institutions which more immediately concern the preservation of the State, and of which it takes a more immediate oversight. A reference to these comes appropriately in here after our discussion of aggregate bodies as persons in law.

The Family.

The laws relating to the family are usually classed as private law, but in view of the importance of the family in the structure of the State, the laws relating to it are of primary public importance. These are regulations concerning marriage and divorce, legitimacy, guardianship, maintenance of parents, wives, and children; the rights of members of the family to succeed to each other, i.e. the laws of succession in the event of intestacy. This is an immense body of law, and with aspects of which we shall have occasion to deal later, but we desire to emphasise here its public importance in relation to the State. The cardinal distinction in this respect is that in marriage and other family relationships the rights and obligations connected with them are contemplated and accepted by the parties, but cannot be framed and varied by the will of the parties like a commercial contract.

The majority of modern countries have passed the stage at which the family was an important political group or unit, but legally and socially careful regard must still be had to its position in the community. A striking modern instance of this is the question of the respective positions of husband and wife in the eye of the law; is this to be one of complete equality? There are obvious natural differences between men and women, but the question for the legislator is whether these differences are to be left to their spontaneous development, or whether any of them are to be given a preference in the State over the other. The issues in this problem are far-reaching; equality implies equal responsibility, equal personal liberty, "equal pay for equal work," and many other conditions which would not arise if the legal status of woman were inferior to that of man.

Then within the family the State has an interest to lay down rules which are not allowed to be altered by individuals. Here, too, the question is how far should the State interfere. For instance, should it allow complete liberty of bequest, or partially or totally restrict such a power.

Subordinate Legislatures .

In the modern State the place which was occupied by the family group or primitive village community may be taken as represented by local authorities. These have charge of administration of localities such as Borough and County Councils, or with the administration of a particular matter such as education or the Poor Law. These bodies are created by the State for special purposes. Their powers may be extended,

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restricted, or even recalled by the supreme government. Their relation to the State is determined mainly by the consideration of what is good for the State. The problem for the legislator here is just the same as in the case of the family. How far should the State interfere? Does it endanger its own authority and influence by giving wide powers to the subordinate bodies, or, on the other hand, does it impair its own efficiency if it centralises powers in its own immediate officers?

Other instances of delegated legislation are the powers entrusted to Courts of Justice, Universities, railways, and other public companies to make rules for the carrying out of their own objects. These have the force of law as regards the persons whom they concern, provided that in making them the subordinate authority has not presumed to legislate in regard to matters outwith the province assigned to it by the sovereign power.

We have already referred to the question of constitutional law which arises in connection with the relation of the State to its subordinate Legislatures. It is open to any individual who is affected by an enactment of the inferior authority to claim that in making such a regulation the subordinate body in question exceeded the powers delegated to it. The trial of such a question often brings within the purview of the Courts the whole policy of the Legislature. There have been a great many cases on this subject, as a result of which there have been developed certain well established canons of construction for determining whether, in making the regulation that is objected to, the subordinate authority has or has not exceeded its statutory powers.

Religious Bodies.

The present position of religious bodies with regard to the State is largely determined by historical considerations. Formerly, the alliance between State and Church was intimate; there was one religious body which the State recognised, and with which it had well-defined relations. It is not appropriate here to enter into any account of how other religious bodies came to be, and how in not a few countries there is still one religious body which maintains the State connection, though may be in an attenuated form, and many others which have no State connection, and call themselves free churches. The State Church is affected by the special laws and statutes which have been, from time to time, made for its creation and protection. The other churches make their own internal regulations, but this does not make them free. They are no more and no less free than any other person in the State. They are necessarily affected by duties and obligations and considerations arising out of the law of trusts and contracts, and the law will enforce these as against them.

Endowments and Trusts.

The life of the individual being brief, it is necessary that the State should take an oversight of societies or corporations, which are designed to continue from generation to generation, such as hospitals, asylums, and universities. Generally speaking, the interference of the State here is slight. If the funds devoted to these institutions have been provided by the State, then their administration falls into the province of local government, with which we have already treated, but if the funds have come from private benefactors, the State, as a rule, leaves their administration to the general law of trusts, a cardinal principle of which is that

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the ideas of the settler, or, otherwise expressed, the intention of the testator be carried out. The law of trusts provides for the administration and accounting of the trust funds, and for resort to the Courts in the event of mismanagement. At the same time, with the passing years, the ideas of the original benefactor may become obsolete, and here the State can justly step in to redress what is unsuitable. This may be done by a specially appointed commission, or the existing trustees themselves may apply to the Court and obtain modifications on the original scheme adapting it to existing circumstances.

Trade and Labour Combinations.

In mediæval times the State interfered to an intimate extent in matters of trade, even to the regulation of prices. The action of the State in this respect has now gone to the opposite extreme, and trade is left to individual enterprise. "Every man" remarks Adam Smith, "as long as he does not violate the laws of justice, is left perfectly free to pursue his own interest in his own way, and to bring forth his industry and capital into competition with those of any other men or body of men,"—a system productive, Adam Smith contended, of the maximum benefit to the individual and to society.

Restraint of trade is regarded as contrary to public policy. The Courts will refuse to give their aid in carrying out agreements which restrain freedom of trade, and they will decline to intervene by injunction or otherwise to protect rights alleged to be acquired under such contracts. It is in this way that English law protects the public against monopolies. At the present day attention is being called to the fact that this procedure is no longer adequate to grapple with the practical monopolies acquired in certain trades by trusts and large financial interests. It is suggested that a wider significance should be given to the doctrine of public policy, and that the economic effects of contracts and combinations might competently be examined by the Courts. Such procedure, it is understood, exists under United States and German law, and has been introduced in recent legislation in the Australian Commonwealth. In Britain, at present, the question still remains one of law to be determined by a judge, to whom the only guidance offered is the doctrine of public policy as developed in previous decisions.

Combination, both in regard to trade and labour, is allowable. An absolute monopoly may be created if that is found to be possible, and similarly a union of workmen all conforming to restrictive union regulations is allowable; only, if an individual trader or workman breaks away from the association or union, the Court will not enforce any agreement or penal undertaking under which he may have entered for the purpose of coercing him back to the union.

In regard to labour combinations, whether of employers or employees, they hold a peculiar position under the law. They are of the nature of corporations, and are legally *personæ*. They hold property, and pursue a business and purpose distinct from the individual members, yet they have been by statute placed outside the law, which makes corporations liable for tortious acts. This was done by the Trades Disputes Act of 1906.

The Fundamentals of Accountancy.—XII.

By Lawrence R. Dicksee, M.Com., F.C.A.

Various classes of Audit are described in the following article, which concludes the present series. In our next issue the first of a new series of articles on the Fundamentals of Accountancy by Professor Dicksee will appear, dealing with matters that may usefully engage the attention of the articled clerk during his second year.

LIV.—“ Internal ” Audits.

In most business houses a certain amount of auditing work is done by the accounting staff themselves, and is variously described as a “ staff audit,” “ internal audit,” “ internal check,” &c. The work consists of checking the entries made by the accounting staff, with a view to guarding against purely clerical errors, i.e. errors of copying, calculation (including addition) or posting. It covers, therefore, a very much more restricted area than the audit proper; but so far as it goes it clears the ground considerably for the true audit, in that such a system of check, if properly carried out, ought always to detect errors of omission or commission in connection with the purely routine work of the staff. It does not, however, attempt to deal with questions of principle, e.g. whether the proper distinction has invariably been observed as between Capital and Revenue transactions, and whether the transactions recorded have been duly authorised. In the nature of things an inquiry into such questions of principle can be much more satisfactorily conducted by those who are absolutely impartial, i.e. by outside experts; the checking of the purely mechanical work can, however, be quite well performed by those who are upon the staff, and such an arrangement has the two-fold advantage of insuring the discovery of clerical errors at the earliest possible moment, and of effecting a considerable saving of expense.

LV.—Necessary Safeguards.

For any system of internal audit to be effective, it is important that certain safeguards should be observed. In the first place, there should be no such thing as mutual checking. If two clerks check each other's work, there is always a danger that any mistakes that may be discovered are not duly reported to the Accountant, who is thus kept uninformed as to the respective efficiency of his various subordinates, and in extreme cases such an arrangement paves the way for collusion, which may easily result in fraud remaining undiscovered. Under a proper system of check, if A.'s work is checked by B., B.'s work should be checked not by A. but by C., and so on. It is further important to bear in mind that no checking can usefully be done by those who are in any sense accounting parties. Accordingly, those who have control of,

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or access to, Cash in any form should take no part in any system of internal check; nor, for that matter, should they have access to the Ledger records at all. In the next place, the duties of the various members of the staff should be defined, so that responsibility may be definitely fixed, and it should be an inexorable rule that no one is allowed, even temporarily, to undertake work outside his own particular sphere at the time being. Lastly, it is important that the duties of the various members of the staff should be changed about from time to time, so that each section of the work may from time to time fall within the scope of the duties of a different person. If a system of internal audit be organised upon these lines, the professional Auditor may commonly commence his investigation at the Trial Balance stage, or may at least assume the accuracy of the Trial Balance after imposing a certain number of "sampling" tests, i.e. **checking certain** comparatively small portions of the detail work selected by himself at random.

LVI.—Statutory Audits.

Where an Auditor is appointed by virtue of a statutory provision requiring accounts to be audited, it is important that he should make himself familiar with the provisions of the statute, and satisfy himself that his audit is conducted upon the lines therein laid down. If the Auditor's investigation falls short of that provided by the statute, he is clearly guilty of negligence. Ordinarily, it is not necessary that the audit should be more thorough or exhaustive than the statute contemplates; but there is, of course, nothing whatever to prevent the same person conducting the statutory audit and also some additional work, in the nature of an audit, which the statutory provisions do not cover. Such additional work, however, comes under the heading of "Contract Audits" dealt with in the next paragraph. As an illustration of what is meant here, it may be mentioned that the statutory audit of a company registered under the Companies Acts centres upon an investigation of the accounts, culminating in a report to the shareholders upon the Balance Sheet. Inasmuch as the Balance Sheet cannot be affected by transfers of shares or debentures from one person to another, it is no part of the statutory audit of a registered company to make a detailed examination of the accounts kept by the Transfer Department. Not infrequently, however, a special arrangement is made, as a result of which the Auditor has contracted to check the records of the Transfer Department in detail. Where there is such an arrangement, it must be properly carried out, or the auditor will be liable for breach of contract.

LVII.—Special Contract Audits.

There is no reason whatever why accounts should not be audited even where there is no statutory provision rendering an audit compulsory. As a matter of fact, there were no statutory provisions for the audit of the accounts of registered companies prior to the passing of the Companies Act, 1900. In the absence of statutory provisions, an audit of accounts is a matter of contract between the Auditor on the one hand, and those employing him upon the other. In the absence of express provision to the contrary there is, to say the least of it, a strong presumption that such an audit is to be at least as thorough and complete as a statutory audit would be in similar circumstances. In practice, however, it is

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sometimes to be found that the Auditor makes no report in writing to those by whom he is employed. The question has never been expressly decided, but it is submitted that, in the absence of a report, those employing the Auditor are entitled to assume that he has discovered nothing unfavourable as a result of his investigations, and that accordingly it is to be inferred that the absence of a written report is for practical purposes equivalent to making a report in writing that a proper audit has been made and that everything is in order. Whatever the precise legal position may be, the Auditor should take the view that it is his duty to be entirely frank with those who employ him, and that they, knowing that an audit is being conducted, will not unnaturally assume that everything is as it should be, unless they are informed to the contrary.

LVIII.—Partial Audits.

Sometimes, where there are no statutory provisions for a compulsory audit, an arrangement is made with a professional Accountant not for a complete and proper audit to be made, but for him to check a part only of the accounting records. Not infrequently, the arrangement contemplates that, in some part at least, the accounts shall be checked by those who employ the Accountant. It is unfortunate that the term "audit" should be used at all in such cases, even if qualified by the word "partial" or "incomplete." In the interests of both parties, it cannot be too strongly insisted that such an arrangement, where it exists at all, should be quite clearly defined in writing, so that there may be no risk of misapprehension as to the extent of the work for which the Accountant, or so-called "Auditor," is responsible; and it is well to go further, and set out in writing those parts of the work for which the Accountant is assuming no responsibility whatever. Arrangements of this description are not uncommon in connection with businesses owned by a single individual or by a partnership, where the proprietors are, in fact, supposed to be doing a certain amount of the audit themselves. Manifestly, if responsible work, such as an audit, is to be divided, there should be no uncertainty as to who is responsible for what. But even when the extent of a so-called "partial audit" has been defined most carefully, there is always the risk that there may be some gap between the work undertaken by the professional Accountant, and that for which his employers are themselves accepting responsibility—more especially if, as is commonly the case, the precise circumstances tend to alter somewhat as time progresses.

LIX.—Joint Audits.

As has already been stated (*vide* Par. L), it was at one time a common practice to appoint two or more persons to act as Auditors jointly. The practice still continues, although it is no longer usual. The arrangement was, of course, intelligible when audits were conducted by a committee of members elected for the purpose, who, not being professional Accountants, would have to undertake the work personally without the assistance of a trained staff. When a professional Accountant is employed, a continuance of the old practice is entirely without advantage. Under the most favourable conditions, moreover, the arrangement is an inconvenient one to the Auditors themselves, inasmuch as while it

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contemplates their sharing among them the duties and the work of the Auditor, it leaves each one jointly and severally responsible for the work as a whole.

Where a firm of professional Accountants has been appointed Auditors, the audit falls to be conducted by the members of that firm for the time being, and even although the whole of the work may have been done by one member of the firm all are responsible, for the report is signed in the name of the firm, and the liabilities of the firm are the liabilities of every partner therein. If, however, a professional Accountant has been appointed Auditor as an individual, and has signed the Auditor's report in that capacity, the firm of which he happens to be a member is not responsible in law, although doubtless they would suffer in reputation for any negligence on the part of one of their members.

LX.—The Liabilities of Auditors.

In the absence of fraud, the liability of an Auditor for negligence or breach of contract is limited to the amount of damage actually sustained by his employers as the direct and immediate result of such neglect or breach. If, as a result of failure of duty upon the Auditor's part, a company declares a dividend in the belief that the dividend is being paid out of profits when in point of fact no profits exist that are available for dividends, the Auditor will be liable to the company to the extent of the dividends so paid, because although these dividends have been received by individual shareholders the Auditor's employers are not the individual shareholders, but the company, which in law is a different entity. But if the Auditor's failure to do his duty results in no definite loss to the company, no damages can be recovered.

Audit Programmes and Procedure.—XII.

By Andrew Binnie, F.C.A., C.A.

The following article is the first of a series which will deal with the audit of various classes of business. This month Mr. Binnie takes Bank Accounts and Brewery Accounts, both of which fall into that class of audit in which the records are usually kept in an organised form, so that the facts can be readily tested in the course of verifying the respective Balance Sheets.

Banks.

The great Joint Stock Banks, which are so well organised as to be able to publish their accounts duly audited within about ten to twenty days from the close of the year, come within the first class referred to in the preface to this series of articles (see issue of May 1920), and illustrate the true and natural scope of an audit. A continuous internal supervision is exercised over the transactions from day to day. The auditor can, therefore, accept the vast mass of detail as correct (it would be impracticable to do otherwise), and devote himself to a close consideration of the Balance Sheet, involving a scrutiny of the various Ledger Accounts and Balances, and the verification of the assets. He should satisfy himself to the best of his judgment that the loans made are adequately covered, that all known liabilities are brought into account, the assets correctly valued, and losses provided for. The principal work to be done is as follows :—

Cash.—Attend a little before, or immediately after the close of business on the last day of the year. Have the cash brought out of the tills and safes, and count or weigh same. For convenience in counting, notes should be arranged according to their amounts. A memorandum should be made of the respective amounts of gold, bank and currency notes, silver and copper produced. The current cash should be agreed with the Effects Book, also with the Day Book, adding, if necessary, the cheques payable at other banks not collected, which may or may not be treated as cash. See that the Day Book is balanced, and the figures inked in and carried forward to the next day. Trace also cheques which the bank has not been able to present for payment (if they are not included in the cash). Procure certificates for cash at the Bank of England and other banks. Officials of the bank should be present during the counting of the cash and securities, and take charge of same at the close of the inspection

Securities Deposited Against Loans, Overdrafts, and Acceptances.—See a sufficient number of the securities as per the Customers Securities Book. Examine Loan Accounts in Loan Ledger, and see whether the margin of cover is in the auditor's judgment adequate, having regard to

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the value of the security. In case of loans against produce, see valuation by a broker. Look at date of warrants, and see that produce is not old and possibly unsaleable. Note the general tenor of the account, and whether shipments cleared off satisfactorily or not. Note whether there is any contingent liability for uncalled capital in respect of any of the securities in the name of the bank or the bank's nominees. See that interest is not being charged in respect of accounts which appear to be doubtful. Note any exceptionally large loans and scrutinise same closely.

Bank's Investments.—See the securities for the bank's investments as per the Investment Ledger and check valuation of same, and ascertain whether adequately depreciated. Note whether any are hypothecated for any special purpose requiring disclosure in Balance Sheet.

Investments held for Safe Custody and Collection of Dividends.—See a sufficient number of the securities as per the register, and trace payment of a certain number of the dividends.

Bills Discounted.—Examine bills with list of bills on hand. See that bills are not overdue. Agree with the Bills Account. See whether any exceptionally large amounts relate to individual firms, and make inquiries. See that a rebate is made in respect of discount on bills not matured, as the practice is to carry the whole of the discount to the credit of Interest and Discount Account when bills are discounted. Note at what rate the rebate is calculated, and whether it is a fixed rate, or the rate at which the bills were discounted, or the rate at which they could be re-discounted. See that the same principle is followed from year to year.

Deposits and Current Accounts.—The list of balances on Deposit and Current Account should be examined with the Ledgers. Any overdrawn Current Accounts should be satisfactorily explained. The overdrawn amounts should not be deducted from the total liabilities on Current Account. See that Interest on Deposit Accounts is duly provided for up to date. A number of Pass Books may also be compared with the Ledger Accounts.

General Ledger.—The Balance Sheet should be compared with the General Ledger balances, and the General Ledger balances agreed with the respective totals of the balances of the subsidiary Ledgers.

Branches.—Examine the Branch Accounts and see that they are satisfactorily incorporated in the Head Office Accounts. The Companies (Consolidation) Act, 1908, Section 113, provides as follows:—

“ In the case of a banking company registered after the fifteenth day of August, eighteen hundred and seventy nine—

- (a) If the company has branch banks beyond the limits of Europe, it shall be sufficient if the auditor is allowed access to such copies of and extracts from the books and accounts of any such branch as have been transmitted to the head office of the company in the United Kingdom; and

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- (b) The Balance Sheet must be signed by the secretary or manager (if any), and where there are more than three directors of the company by at least three of those directors, and where there are not more than three directors by all the directors."

Balance Sheet.—The practice varies, but in a well drawn Balance Sheet a distinction is made between (1) Coin, Bank and Currency Notes, and Balances with the Bank of England and other banks, (2) Money at Call and Short Notice, (3) Bills Discounted, (4) Short Loans, and (5) Loans of a permanent character (if any), such as mortgages. Investments should be classified, and the liability on Deposit and Current Accounts distinguished from other liabilities.

Form of Certificate.—Some auditors are content to give the common form of certificate as follows :—

" In accordance with the provisions of Section 113 of the Companies (Consolidation) Act, 1908, we report that we have examined the above Balance Sheet with the books of the bank, and have obtained all the information and explanations we have required, and we are of opinion that such Balance Sheet is properly drawn up so as to exhibit a true and correct view of the state of the bank's affairs according to the best of our information, and the explanations given to us and as shown by the books."

A more amplified form is usual, such as the following :—

" In accordance with the provisions of Subsection 2 of Section 113 of the Companies (Consolidation) Act, 1908, we report as follows :—

We have examined the above Balance Sheet in detail with the books at head office and with the certified returns from the branches. We have satisfied ourselves as to the correctness of the coin, bank, and currency notes and balances with the Bank of England, cheques in course of collection on other banks in the United Kingdom, and bills discounted, and have verified the correctness of the money at call and short notice. We have also verified the securities representing the investments of the bank, and having obtained all the information and explanations we have required, we are of opinion that such Balance Sheet is properly drawn up so as to exhibit a true and correct view of the state of the company's affairs according to the best of our information and the explanations given to us and as shown by the books of the company."

The amount of the liabilities on account of acceptances and engagements on account of customers (on which there is a contingent liability) is usually stated on both sides of the Balance Sheet, or is sometimes mentioned in a foot-note.

It is a common practice for banks to write down or even write off bank premises, investments, &c., the amounts so written off being mentioned in the annual report, and thereafter becoming " hidden reserves," commonly called " Internal Reserves." As values may fluctuate widely over a term of years, the conservative practice adopted by the great banks is essentially sound from a financial point of view, and adds to the " liquidity " of the Balance Sheet.

Audit Programmes and Procedure.

Breweries.

The accounts of many breweries are masterpieces of accountancy. The Brewing Account sets out the total quantities of hops, malt, and other brewing ingredients used (which are agreed with the quantities purchased after allowing for stocks), also the wages, expenses, and other costs of brewing on the debit side, thus establishing the total cost of the beer brewed and racked, and the cost per barrel. Any wastage in the process of brewing is also brought out. The Beer Account, which is charged with the cost of the beer racked, as shown by the Brewing Account, sets out in classified totals the number of barrels sold, the total money, the average selling price per barrel of each class of beer, and the average profit per barrel. The barrels sold, after allowing for beer bottled, is agreed with the total production. The business done in barrels and money with each tied house is also shown, set out in schedules, together with the rent receivable, rent payable, and loans (if any) to the publican, also the amount owing in respect of rent and for beer, wines, and spirits. To enable accounts to be raised in this way the books are kept on the columnar system, and in considerable detail. The auditor has no difficulty in testing the accuracy of the accounts and schedules by reference to the books and vouchers. The beer brewed, quantities of ingredients used, cost, &c., may be compared with the Brewers' Book, and a certificate may be obtained from the Excise Officer as to the number of barrels on which duty has been paid. In examining the Book Debts, note how much is due on account of beer, wines and spirits, and rent, also the length of the lease or agreement under which the house is held, also keep an eye on discounts, which are exceptionally heavy and variable. Note how casks, cases, &c., are charged out to customers, and see that they are not included both as book debts and stock. Where there are managed houses, see that there is a sufficient check on the accounts submitted. The stocks of these houses are usually taken at selling price, and in bringing them into the annual accounts the usual discounts must therefore be deducted. See that payments on account of Compensation Fund are all charged to income. Where licences are cancelled, any amount received in excess of the book value of the house should be regarded as a reserve. Should there be a deficiency, the deficiency might, technically speaking, be looked upon as a loss of capital, but it is sounder to write the deficiency off to Profit and Loss Account, and that is usually done. See that sufficient depreciation is written off casks, jars and cases charged to customers (and returnable), as well as off those in hand. See that only actual improvements are capitalised, and that repairs are all charged to profits. See that sufficient provision is made for depreciation of leaseholds. If any houses be sold at a profit, the profit should be carried to a reserve, out of which any losses should be written off. Failing such a reserve, losses should be written off to profits. Inquire as to forward contracts for hops, &c. If markets have fallen sufficient reserves should be made. See that sales of grains are duly accounted for. In weight they should be rather more than the malt used. Certificates should be procured for stocks of hops in cold storage or in hands of hop factors. See that any outstanding liability for duty on beer is brought into account.

Foreign Exchange Fluctuations.

By Jas. Dickson, A.C.I.S.

The following article deals with the intricate subject of foreign exchanges in an illuminating manner and will be found exceedingly helpful by students of accounting and finance. Mr. Dickson is a member of the Chartered Institute of Secretaries and of the Institute of Bankers in Scotland and has had considerable experience in dealing with exchange problems.

Introductory.

The subject of Foreign Exchanges has been brought to the notice of the British public in a very forcible manner in recent years, and people are now beginning to take more interest in the fluctuations of the rates of exchange, as the newspapers have been impressing upon them the fact that these are intimately connected with the prices which they have to pay for imported foodstuffs and other commodities.

Several years ago British merchants took very little interest in the foreign exchanges as they insisted on making all their transactions in sterling currency, but when they realised that competitors, who quoted prices to the foreign countries in the currencies of these countries, were gaining a large proportion of the trade of these countries, they were forced to do the same in order to retain these markets.

Accordingly, the fluctuations in the foreign exchanges are now of considerable interest to them, as they have to make many transactions in these foreign currencies, and, when the reasons of these fluctuations are known, it is sometimes possible to foresee the effect of certain actions upon these rates of exchange, and to take advantage of this knowledge.

The Money Article.

In the financial section of every important newspaper will be found a column devoted to the money market and the foreign exchanges, in which are set out the ruling market prices of gold and silver, and tables showing the rates of exchange between this country and the other important countries of the world.

The figures shown in this column vary practically every day; usually the fluctuations are very small but occasionally they are very large indeed, and we shall now consider how these fluctuations arise, how they are caused, and the effect upon the rates of exchange of the various causes of these fluctuations.

In the science of physics we are told that every action has its reaction, equal in extent and opposite in direction, and we find that the rule applies also to international trade, and the extent of the reaction can be measured by the fluctuations of the rates of exchange.

What is the Rate of Exchange?

Before going on to deal with these fluctuations, let us briefly revise what is meant by foreign exchange and rate of exchange and how these rates are fixed.

Foreign exchange has been defined as the mechanism by means of which international indebtedness is cancelled or settled.

It is the method used for the settlement of debts between legal persons separated by legal and economic barriers as well as by an interval of time and space. The parties concerned must be separated by some difference in

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legal system, currency, citizenship or economic situation, and they require to settle their indebtedness at the lowest possible cost and with the maximum of safety.

If the currencies are different, there must be a basis of conversion, and, if the debts are payable at a future time, there must be some means of ascertaining the present value in one country of a debt payable in another at some fixed or determinable future time.

The question is further complicated by the fact that all countries do not have the same standard for their currencies, and that these standards are subject to legislative alteration.

These currency standards may be separated into four divisions:—

- (1) Effective gold currency in which credit instruments may be converted into gold on demand.
- (2) Effective silver currency.
- (3) Effective gold currency for exchange purposes and a subsidiary currency for internal use.
- (4) Non-convertible currency.

The rate of exchange between two countries expresses in the currency of one country the value of a credit instrument, whereby a standard quantity of the currency of the other country may be obtained in that country on demand, or, if so quoted, at a fixed future time.

In normal times, between two countries using an effective gold standard, the rate of exchange varied to a very small degree from the Mint par of exchange between those countries.

The Mint Par of Exchange.

The Mint par of exchange between two countries using a gold standard is the ratio between the quantities of fine gold, as fixed by legislation, contained in the standard gold coins of these countries.

The sovereign is the standard gold coin in this country and the 20 franc gold piece is that of France, and the legal quantity of fine gold in the sovereign is equal to the legal quantity contained in 25.2215 francs, so that we say the Mint par of exchange between this country and France is 25.22½ francs to the £.

The Mint par of exchange between this country and the other countries of the world is now usually quoted in the foreign exchanges table in the financial columns of the newspapers.

Every Wednesday and Friday there was a second table in this column, called the Course of Exchange,* which gave the rates quoted in London on the previous day for credit instruments payable in the various countries abroad, whereas the Foreign Exchanges table shows the rates for credit instruments on London quoted in the foreign centres and cabled over here.

Effect of Silver Standard.

There can be no Mint par of exchange between countries using different standards of currencies. The value of the currency of a country using a silver standard would be governed in a country using a gold standard by the gold price of silver on the market.

This can be noticed by comparing the market price of silver quoted in the Money Market column with the rate of exchange between this country and a country using an effective silver currency such as China.

The value of the Shanghai tael will be found to be approximately that of 1.15 oz. of silver. (See graph and table, pp. 743, 742.)

Effect of Non-convertible Currency.

Similarly, in the case of a country using a non-convertible currency, the value of that currency in a country using a gold standard will depend upon the market price of gold in the country using the non-convertible currency. (See graph and table, pp. 741, 742.)

* No longer shown since the closing of the Royal Exchange in January 1921.

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This was demonstrated in this country when the Government ceased to control the rate of exchange between this country and America. The value of the American dollar fluctuated with the market price of gold here quoted in our depreciated currency which was inconvertible so far as foreign exchange was concerned.

The value of a currency, in the country which uses it, depends on the ratio between the quantity of that currency (including credit instruments) in circulation and the quantity of goods which are offered in exchange for it, i.e. its purchasing power, so that the actual par of exchange between two countries depends on the respective purchasing powers of the currencies.

This actual par of exchange, or, as it is called, this purchasing power parity, cannot be accurately determined so the Mint par of exchange is substituted, and in normal times this was sufficiently accurate.

When the rate of exchange is such that we can purchase a greater quantity of the currency of another country for £1 than is expressed by the value of £1 at the Mint par of exchange, the rate of exchange is said to be favourable to this country.

Conversely, when we can only obtain for our £1 a smaller quantity of the currency of the other country than is expressed by the Mint par of exchange, the rate is said to be unfavourable to this country.

This rule applies irrespective of whether the rate of exchange is expressed in the currency of this country, as in the case of the exchange with Portugal, India, and South America, or in the currency of the foreign country.

Fluctuations in Rate.

We shall now consider the causes of the fluctuations in these rates of exchange, how the rates are affected, how these fluctuations tend to adjust themselves, and also the methods by which the rates are controlled and stabilised. In the first place, the exchange takes place between persons separated by legal or economic barriers, and, consequently, anything which alters the effect of these barriers, or the barriers themselves, is bound to affect the rates of exchange between that country and all the other countries which are affected by the alteration.

Secondly, the price of money or purchasing power is subject, like all other commodities, to the laws of supply and demand; so, in ordinary times, when there are no other influences present, the rates of exchange fluctuate according to the supply and demand for instruments of credit whereby international indebtedness may be discharged.

These instruments are bills of exchange, bankers' drafts, cheques, telegraphic transfers, and all such credit instruments as are acceptable in other countries.

Gold Points.

In normal times, between two countries using a gold standard, the rates fluctuated between very narrow limits, which were known as the gold points. These points showed the rates at which it was as cheap to buy gold and bear the expense of remitting it to the other country as it was to buy a bill of exchange on that country.

These limits were denoted by the Mint par of exchange plus or minus the cost of remitting gold. The gold points only applied so long as each party could obtain gold on demand in exchange for credit instruments, but when restrictions were placed on obtaining gold for export, they no longer applied and the rate of exchange fluctuated beyond these points.

Causes of Fluctuations.

The causes of fluctuations in foreign exchanges may be classified into regular or seasonal causes and irregular causes, the latter being sub-divided into legislative and non-legislative.

Foreign Exchange Fluctuations.

Regular or seasonal causes are those which affect the rates of exchange at certain periods or seasons, which are more or less definite and which are expected to occur at these periods.

Irregular legislative causes are those which affect the rates of exchange at uncertain times through legislative action which alters the economic barriers between the countries.

Irregular non-legislative causes are those which occur at uncertain times affecting the financial or economic situation of a country and thereby affecting the rates of exchange between that country and the other countries.

The principal examples of regular or seasonal causes are :—

- (1) Payment of interest on loans and investments.
- (2) Expenditure by tourists.
- (3) Export of crops.

Interest on loans and dividends on investments are usually payable on certain fixed dates, the end of June and the end of December being very common, and when we consider the millions of pounds which are invested by the people of this country in other countries, particularly America, this periodical payment of interest and dividends will be seen to be quite an important factor.

The effect is that, on certain dates, large debts due to people in this country become payable, and, as they are ultimately payable in the foreign country, a large supply of credit instruments, payable on demand in that other country, is placed on the market here, and if the supply is greater than the demand, the rate of exchange will tend to become more favourable to this country.

In the summer a large number of people go from this country to the continent for holidays and at the same time large numbers of American tourists visit this country.

In this way these continental countries will have a large supply of credit instruments payable in this country, or there will be a large demand in this country for credit instruments payable on the continent, and both of these influences will cause the continental rates to tend to become more unfavourable to this country.

By the same reasoning, the American exchange will tend to become more favourable to this country.

In the "fall" large American cotton crops are gathered and shipped over here, as this country obtains a large part of its cotton supply from America, and bills of exchange are drawn on this country in respect of these shipments.

The American markets are consequently flooded with paper on this country at that time, so the rate of exchange tends to become unfavourable to this country.

The rates will not necessarily move in the manner indicated owing to the fact that there are usually other influences at work, some of which may have the opposite effect, and it is only the balance of these influences which actually determines the rise and fall of the rates of exchange. However, if all the various influences are taken into consideration, it is quite possible to make a fairly accurate forecast of the movements of the exchanges.

The irregular legislative causes of fluctuations are those which increase or decrease the economic barriers which separate the parties whose transactions have caused the international indebtedness.

Trade usually follows the line of least resistance, and where economic barriers are raised in the form of taxes on imports, bad currency, and trade embargoes, trade is deflected to other parts, with the result that higher prices must be paid to obtain the goods or the volume of trade with other countries diminishes.

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Effect of Customs Tariffs.

The first cause with which we shall deal is the imposition or increase of taxes on goods entering a country. This causes a decrease in the amount of imports of the goods subject to the tax, with the result that fewer bills are drawn on that country and the rates of exchange will tend to become more favourable to the country imposing the tax. In the beginning of this year the Spanish Government made a large increase in the tax on imported goods of certain classes, and the effect on the exchanges was to cause the rate of exchange between Madrid and the other financial centres to rise. This was not so apparent in the exchange with this country owing to other causes taking effect at the same time, but the American exchange increased steadily from 13.30 cents per peseta on the 13th January to 13.95 cents on the 27th, thus showing the tendency of the Spanish exchange to become more favourable. The opposite effect is obtained by the imposition of an embargo on exports from one country to another, which may be done for political reasons.

Shortly after the recent Greek elections, which preceded the return of King Constantine to the throne, the English and French Governments threatened economic pressure on Greece by refusal to trade, thus cutting off a large portion of the Greek export trade.

The rate of exchange between this country and Greece prior to the elections was 37 drachmæ to the £, and after the elections it had risen to 51.50 drachmæ to the £ as a result of the threatened economic pressure.

In the case of an embargo on exports, there is a diminution in the supply of bills on the country to which exports are forbidden, and the rate of exchange tends to become unfavourable to the non-exporting country.

Effect of Alteration of Currency to Non-Convertible Standard.

Another important legislative alteration to the economic barrier is where the currency of the country is altered from an effective gold or silver standard to a non-convertible paper standard.

This usually implies that the financial standing of that country has deteriorated, and such an alteration is almost invariably followed by an increase in the currency in circulation, with a consequent depreciation in the purchasing power of the currency unit.

The most outstanding example of this is Russia, though this country is also suffering from the effects of the same action, as there are over 300 million pounds of currency notes in circulation at present against which no gold is held.

In 1914 the Russian rouble was worth 2s. and the quantity in circulation was about 3,000 millions. In March 1917 the quantity in circulation rose to 10,000 millions and the exchange was then nearly 200 roubles to the £10 sterling or 1s. each. In the summer of 1917 the Soviets began their policy of issuing notes until nothing had any value and capitalism was completely annihilated, and were not long in achieving their end, as by the beginning of 1918 the exchange was 400 roubles for £10, and by the next year there were estimated to be 60,000 million roubles in circulation and sixteen kinds of provincial issues. These notes were quite useless outside Russia, and no quotations have appeared for a long time owing to the blockade on the Bolshevik part of the country, with the consequent cessation of trade. Japanese merchants trading in Russia in 1919 quoted 2.3 yen for Siberian 100 rouble notes, which would make the Siberian rouble worth about .7 pence.

The effect of this action is to cause the rates of exchange, with countries which retain an effective gold or silver standard, to become unfavourable to the country changing the standard, and as the gold points no longer exist, the only limit to the rates of exchange is when they cease to be quoted.

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The action of Government borrowing will be dealt with later on when the Stock Exchange influences are being considered, as the effects are similar to those which are dealt with in that section.

Effect of War.

The last legislative action which we shall consider is the declaration of war.

If the war involves many countries, the effect on the exchanges between the belligerent nations is to cause them to be temporarily non-existent, and the exchanges between these countries and all others become completely disorganised.

A comparison of the rates of exchange at any date in 1913 with the rates of exchange at the present time will reveal the enormous influence of such an action.

The German mark was formerly worth 1s. and is now worth about 1d., and whereas we used to get 20 Polish marks or 24 krone to the £ when buying bills on Warsaw or Vienna, we could get on 21st January 1921 3.200 Polish marks or 1,825 krone to the £, in spite of the fact that the £ was then only worth about 15s. 6d., reckoned on the price of gold.

Enormous expenditure is involved which is purely destructive instead of being productive, and the consequent financial crisis reduces the exchanges to a chaotic state.

There are practically no limits to the fluctuations in the exchanges except where the currency of a country becomes worthless for international exchange, and barter has to be resorted to in order to effect international exchange of commodities, as is the case at present with several of the middle and Eastern European States.

Effect of Financial Crises.

Irregular non-legislative causes of fluctuations are those which arise from any abnormal economic conditions in a country, such as financial crises or trade depression, or through alterations in the financial condition of a country by operations on the Stock Exchange or money market, the raising and repayment of loans to other countries, and through alterations in the market rates of discount.

At various periods in our history we find that financial crises have occurred from various causes, such as bad harvests, over-trading, and excessive speculation.

These crises have often been preceded by a boom in industry and great inflation of credit.

When the time of depression came, prices began to decline rapidly and credit had to be restricted, with the result that money became more valuable. Imports were decreased and exports were increased. During the boom the tendency would be for the exchanges to go against this country owing to the large number of bills on this country which would be offered in foreign centres, but the influences which are consequent to the crisis would all tend to make the exchanges more favourable to this country.

Effect of Strikes.

Strikes on a large scale which affect our principal exports have a serious effect on the exchanges, as was shown during the coal strike in October 1920.

Production is diminished and our export trade decreases, so that the number of debts, which are not cancelled by our exports, is increased and the exchanges will tend to become unfavourable to this country.

At the beginning of November 1920, when the coal strike was taking place, the American exchange dropped from \$3.45 to \$3.33½ in ten days, though this was partly due to the annual cotton shipments, but the strike was settled on the 4th, and the men all resumed work on the 9th, and on the 11th the

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rate of exchange began to improve till by the 18th it stood again at \$3.45. (See graph and table, pp. 741, 742.)

Effect of Stock Exchange Transactions.

Stock Exchange transactions play a very important part in influencing the rates of exchange, as the raising of large Government and other loans is effected through the medium of the Stock Exchange.

When a Government wishes to raise money to carry out important works, such as building railways, canals and harbours, increasing its defences, and other schemes involving a large capital expenditure, it usually floats a loan and offers this for subscription in all the large financial centres.

Consequently, if large amounts are taken up in these countries, the money has to be remitted to the country raising the loan, and the demand for credit instruments on that country increases to a great extent and the exchanges tend to be more favourable to that country. The opposite is the result, of course, when the loan has to be repaid.

The amount of capital invested abroad by people in this country is very large, and the quotations of foreign stocks and shares in all the financial centres are watched with great interest by the parties who hold these foreign investments or wish to buy them.

Owing to the excellent methods of communication at the present day these quotations can be very rapidly communicated from one centre to another, so that large transactions in these securities frequently take place between the centres. All these purchases and sales of securities have the same effect on the exchanges as imports and exports of goods, so the rate of exchange will tend to be more favourable to us if we are selling large amounts, and more unfavourable if we are purchasing in excess of our sales.

Effect of Dealings in Bullion.

Large fluctuations are caused at the present time by operations on the money market when the dealings are in gold and silver bullion.

Owing to the restrictions on obtaining gold coin for export purposes and on melting down silver coin, the only method of obtaining these metals for export to meet obligations where our credit instruments are not acceptable is by buying gold and silver bullion in the market, when it is imported from abroad. Naturally, the price is fixed by the supply and demand for the bullion, and the price given affects the exchanges between this country, with its temporarily non-convertible currency, and countries with an effective gold or silver currency, as was stated previously.

Market Rate of Discount.

Another influence which is exerted through the money market is the alteration of the market rate of discount. The present value in this country of a bill payable in another country, at a future time, depends partly upon the market rate of discount ruling in the country in which it is payable and in which it can be discounted. This influence will be dealt with later when the stabilising influences are considered, as it is chiefly used in this function.

Effect of Privately-agreed Rate of Exchange.

A large fluctuation in the rate of exchange between this country and France towards the end of January of this year was said to have been caused in an unusual way. The rate had been rising steadily for a period and on the 14th of January it had reached 61.36 francs to the £. It was stated shortly thereafter that merchants in this country were exporting goods to France and had agreed to trade at the nominal rate of about 40 francs to the £, as the high rate was prohibitive to our export trade with France. The rate fell rapidly and by the 24th was as low as 50.30 francs, the only other influence being the hope that the meeting of the Supreme Council would result in an immediate large payment from Germany, and this would hardly account for such a large fluctuation. By the 28th it stood at 55.65.

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as the fall was probably considerably assisted by speculative buying of bills on France in order to sell them when the rate was lower still, and when the rate began to rise again these bills would be thrown on the market and so tend to raise the rate higher still.

Influences Tending to Stabilise Rate.

We have now considered a good number of the causes of fluctuations and we shall now examine the various counteracting influences which tend to reduce these fluctuations and stabilise the rates of exchange.

Methods of Improving Rate of Exchange.

The principal methods of improving the rates of exchange which are unfavourable to this country are:—

- (1) Increasing exports.
- (2) Decreasing imports.
- (3) Improving depreciated currency.
- (4) Banking influences.

The first two methods—increasing exports and decreasing imports—act almost automatically, as, when the rate of exchange is unfavourable to us, we have to pay so much more for our imports that the demand for these commodities decreases, and as the other countries can buy our goods at low rates the demand for our exports increases. This adjustment, in the case of goods, takes place over a considerable period owing to the amount of credit given, and if it is desired to effect a speedy adjustment it is necessary to export gold or securities which require immediate settlement. This method was freely used before the war when gold could be obtained on demand for export purposes, but since the outbreak of war this method has been exercised by the Government instead of by individuals, in order to keep the exchanges from becoming too unfavourable and thus restricting trade.

In the first ten days of this year we exported to America \$4,000,000 in gold, with the result that the rate of exchange rose from \$3.53 to \$3.75 to the £.

During the war our debt to America increased to such an extent that we had not enough gold or bills to meet it, so the Government took over from private individuals their holdings of American securities and by sending them to America, as required, the rate of exchange was kept within certain limits. Large sums were borrowed by the Government from America and these borrowed dollars were sold in this country at a fixed rate of \$4.76 to the £, so the rate of exchange could not fall below that figure, and by these artificial means large fluctuations in the rate of exchange were prevented. When these methods were abandoned in March 1919 the influences of supply and demand, and inflation of our currency, came into force, with the result that the rate of exchange fell rapidly.

Where the currency of a country has depreciated, the rate of exchange tends to become adverse to that country, and this can only be altered by improving the currency by means of restricting the circulation or raising the intrinsic value of the coins.

Banking Influence.

Banks are able to exert a very powerful stabilising influence by means of drawing bills on their foreign correspondents and selling them in the market when the rates are against this country, and by buying bills to repay their correspondents when the rates have improved.

This is chiefly done with regard to the fluctuations in the exchanges which occur at certain known times through any of the regular or seasonal causes, and tends to keep the fluctuations from being as large as they otherwise would be.

Effect of Raising the Bank Rate.

Another important method of adjusting adverse rates is by raising the bank rate in this country above the rate ruling in the country with which the rate of exchange is unfavourable to us.

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Foreign bankers, especially Continental bankers, buy bills on other countries as investments; so when the bank rate is raised in this country, they buy bills in London from the bill brokers and thus obtain the benefit of the increased rate of interest if the market rate has followed the bank rate.

British bankers, however, do not hold foreign bills as investments, so that a rise in the Continental rate of discount has not the same effect on the rates of exchange.

The primary effect of a rise in the market rate of discount is to make the rate of exchange more unfavourable, as a less amount will be obtained on discounting bills in that country.

When the Spanish bank rate rose to 6 per cent. on the 6th November 1920, the rate of exchange between London and Madrid rose from 24.83 pesetas to the £ on the 4th to 27.25 pesetas on the 11th, thus turning a favourable exchange into an unfavourable exchange to Spain.

When the discount rate is raised in this country above the Continental rates, the demand for bills by Continental bankers ultimately turns the adverse exchange into a favourable one for this country.

Arbitrage Operations.

A very important factor which tends to keep the exchanges between the chief monetary centres on a level is that of arbitrage operations.

Arbitrage operations are those by which financiers, who have special skill in foreign exchange transactions, take advantage of any differences between the rates ruling in the various centres. Owing to the facilities for rapid communication there is now very little opportunity for direct arbitrage operations, as any fluctuations are promptly notified, but it is possible, by means of indirect transactions between three or more centres, to take advantage of small differences between the rates quoted.

For example, if the cheque rates in London on New York and Paris were respectively \$4 and 50 francs, and the Paris quotations for cheques on London and New York were 50 francs and 12.40 francs, an operator could instruct his Paris agent to buy cheques on New York for \$10,000 and draw on him for £2,480.

He would then sell in London a draft on New York for \$10,000 for which he would receive £2,500, thus making a profit of £20, less expenses, on the transaction.

This is, of course, purely a hypothetical case, but it illustrates the method of arbitrage, and the effect of such operations is to cause the rates of exchange on the various centres to move in unison, and, in normal times, has a very steadying influence on the exchanges.

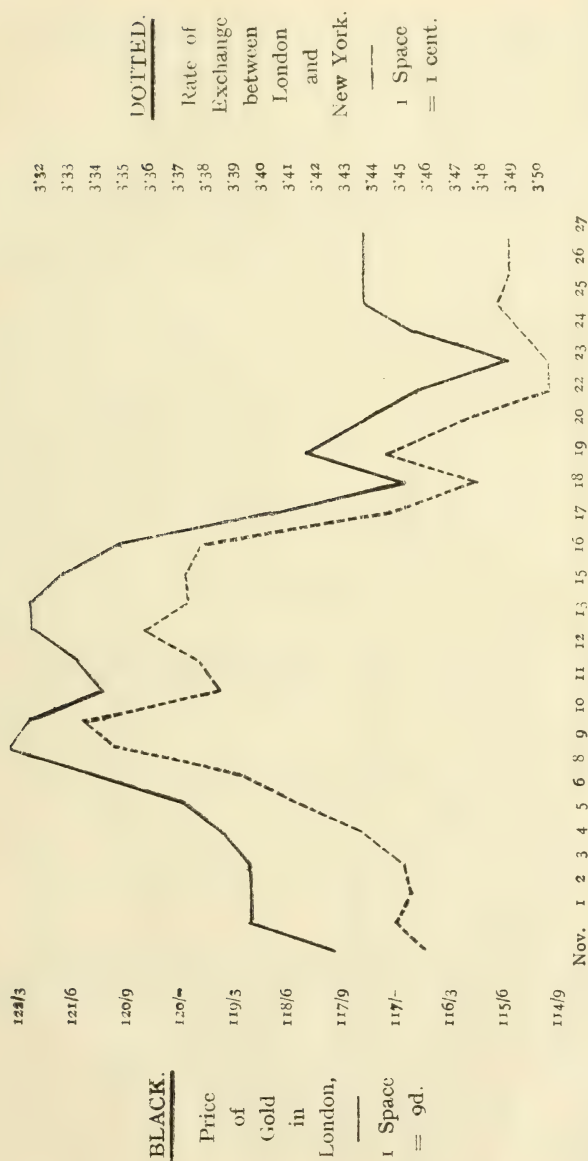
It will be seen that the result of any influence on the rates of exchange may be considerably modified by the action of these counteracting influences, so that it is necessary to take all the known influences into consideration when attempting to make any forecast of the movements of the rates of exchange in response to any particular influence.

The past few years have seen the demonstration of the truth of many of the theories which had been formulated on this subject, and much valuable information has been obtained which will be of great assistance to the student of foreign exchanges.

Conclusion.

It will be many years before the devastating effects of the war on international trade and currency will be removed, and the student of this subject will have unique opportunities of studying the effects on foreign exchanges of the economic actions taken by the various nations in their endeavours to bring about, once more, normal conditions of international trading relations.

Foreign Exchange Fluctuations.



Graph showing relation between price of gold, in non-convertible currency and rate of exchange with country using effective gold standard.

TABLE

showing the fluctuations in the Price of Gold in London and the Rate of Exchange between London and New York as shown in Graph p. 741.

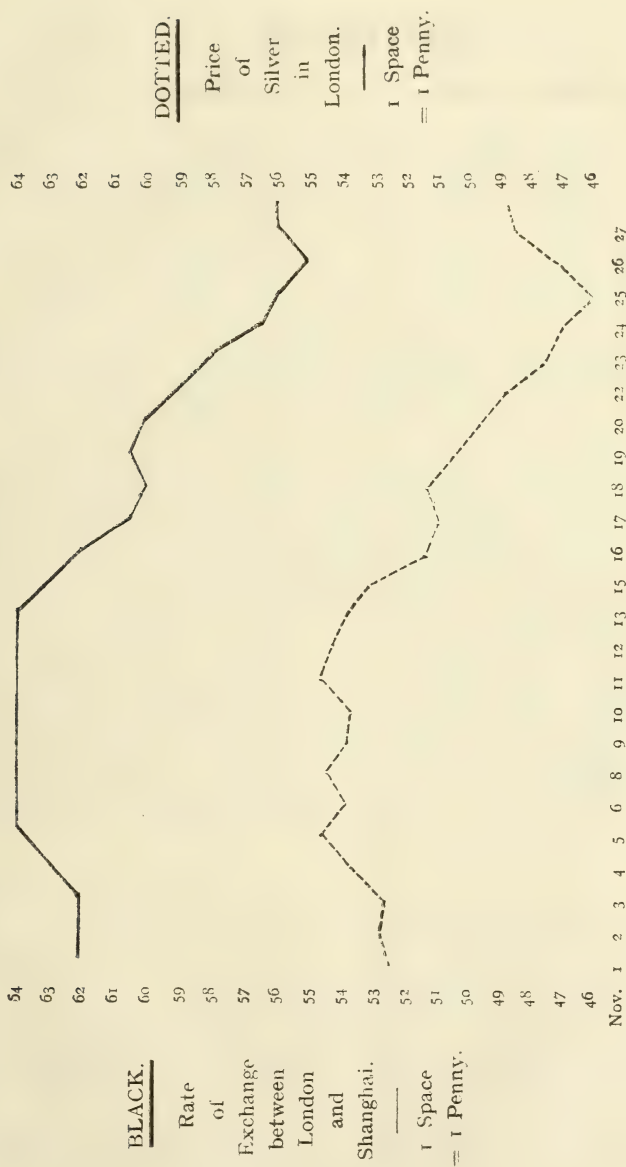
Date.	Price of Gold in London.		American Exchange, \$ to £1.	
	Shillings.	Pence.	Dollars.	Cents.
November 1	118	1	3	45
" 2	119	2	3	44
" 3	119	2	3	44
" 4	119	2	3	44
" 5	119	6	3	43
" 6	120	-	3	41
" 8	121	-	3	39
" 9	122	3	3	34
" 10	122	-	3	38
" 11	121	-	3	38
" 12	121	4	3	37
" 13	121	11	3	35
" 15	121	11	3	37
" 16	121	6	3	37
" 17	120	9	3	37
" 18	118	9	3	44
" 19	117	2	3	47
" 20	118	4	3	41
" 22	118	4	3	46
" 23	117	-	3	49
" 24	115	10	3	49
" 25	117	-	3	48
" 26	117	7	3	47
" 27	117	7	3	48

TABLE

showing the fluctuations in the Price of Silver in London and the Rate of Exchange between London and Shanghai as shown in Graph p. 743.

Date.	Price of Silver in London.		Shanghai Exchange, s. d. to Tacl.	
	Shillings.	Pence.	Shillings.	Pence.
November 1	4	4	5	2
" 2	4	4	5	2
" 3	4	4	5	2
" 4	4	4	5	4
" 5	4	4	5	4
" 6	4	4	5	4
" 8	4	4	5	4
" 9	4	4	5	4
" 10	4	4	5	4
" 11	4	4	5	4
" 12	4	4	5	4
" 13	4	4	5	4
" 15	4	4	5	3
" 16	4	4	5	2
" 17	4	4	5	2
" 18	4	4	5	2
" 19	4	4	5	2
" 20	4	4	5	2
" 22	4	4	5	2
" 23	4	4	5	2
" 24	4	4	5	2
" 25	4	4	5	2
" 26	4	4	5	2
" 27	4	4	5	2

Foreign Exchange Fluctuations.



Graph showing the relation between the price of silver and the rate of exchange with country using effective silver standard.

EDITORIAL.

Profit Sharing Schemes and Co-operative Labour.

A case at present before the Courts in relation to the profit-sharing scheme instituted by Messrs. Lever Bros. demonstrates rather forcibly the attitude of trade unions towards any arrangements of this nature. Obviously, the unions are antagonistic to proposals which, from *their* point of view, tend to tie the hands of the employee in the event of disputes arising with his employer. It seems a pity that this spirit is abroad, inasmuch that there has never before been such urgent need of co-operation between Capital and Labour as at the present time.

If our country is ever to regain anything like normal conditions of trade, this can only be accomplished by establishing the utmost confidence and trust between master and man; and any scheme framed with this end in view—whether it be profit-sharing, co-partnership, or bonus system—should have the support of all union officials.

"Unity is strength" is a well-worn maxim, and possibly the unions will urge that it is only owing to the unity of the workmen in the past that they have secured so many advantages in the way of improved working conditions, shorter hours, and increased wages. This, no doubt, is true, but we suggest that there is every reason to think that when a better understanding has been established between employers of labour and the trade unions, increased production must necessarily follow. Only by this means can prices be brought down, for it is an unassailable economic principle that as *prices* decrease, so the demands for commodities will automatically increase, and the workman will then reap the benefits of his higher scale of wages. There are, of course, objections to profit-sharing schemes, for as a general rule no participation can take place until the end of the trading year, and the British workman likes to receive his remuneration regularly, and not be obliged to wait until the end of the year for an additional lump sum, on the principle that "a bird in the hand is worth two in the bush." A further objection that is often raised is that it tends to bind a man to a particular firm, and, therefore, puts a certain restraint upon his freedom of action.

On the other hand it is urged that, owing to the perfection to which modern systems of Costing have been brought in some firms, it is possible to ascertain the profits earned monthly, or even weekly, and, therefore, a constant distribution of bonus or share of profits may be made. Here, again, profits might be earned in the early part of a year, and losses incurred in the later months which would, in effect, wipe out the previous profits, and we think that the proprietors would find it difficult to persuade the workmen to return the share already distributed, or to consent to deductions being made from their wages in respect of overpayment of bonus.

From a purely productive point of view co-partnership schemes *should* prove highly beneficial—if only the trade unions would not limit output—as they obviously provide a great additional incentive to the workman to

Editorial.

increase the standard output, and so, as a natural corollary, increase his share of profit. Unfortunately, however, the autocratic unions more often than not limit the output to a ridiculously low standard, and thus tie the hands of both employer and employee. It is only necessary to travel a very short distance on the other side of the Channel to see how different is the position of the working men there. One can see them working from dawn to dusk, and even after dark by the aid of flares. It is true that they probably have a greater incentive inasmuch as they are endeavouring to restore their devastated country, but, apart from this, the spirit and the will to work seems much more evident there than here.

Regarding *co-operative labour* schemes as distinct from profit-sharing, these generally have not proved very successful. We do not include in this category co-operative distribution of food and commodities, but refer particularly to co-operative schemes for manufacture, on the lines of Syndicalism, under which attempts have been made by labour to dispense with the aid of the capitalist and manager, and to constitute its own organising, manufacturing, and distributing branches.

Any such project must, necessarily, be carried on under very grave disadvantages, as the average workman is not an organiser, neither has he the brains, experience, or initiative which are so essential to successful business enterprise. An intimate knowledge of market conditions, and of financial matters, such as exchange, credit, and banking, are also prime essentials to commercial success, all these functions being the natural concern of the so-called "entrepreneur," who ordinarily acts as the connecting link between Capital and Labour.

Further difficulties are almost certain to arise in connection with discipline. We have had many striking examples of such difficulties in some of the post-war labour troubles, when over and over again labour has completely ignored the dictates of its chosen leaders, and taken its own headlong course—in most cases to its undoing. It remains to be seen whether the trade unions will be allowed to eject members on the grounds that they are violating the principles of trade unionism by joining hands with their employers, under the guise of being participators in profit-sharing and co-partnership schemes.

Prize Essay Competition.

Some really excellent essays were submitted by competitors last month and we again urge all our readers to make a special effort to enter for these competitions. The prizes are awarded as follows:—In the Final Division, Mr. A. G. Turner, Accountants' Department, Cunard Steamship Company, Ltd., Liverpool. In the Intermediate, Mr. G. McGregor, 9 Carden Place, Aberdeen, N.B. The subjects for this month are:—*Intermediate*: "Bills of Sale." *Final*: "Debentures."

Income Tax Notes and Comments.

In this column Income-tax recent alterations of law and practice are discussed and explained and readers' queries are answered. Arrangements have been made to reply to these queries by post, the replies being published subsequently in the "Journal" under noms de plume. A stamped addressed envelope should be enclosed with the queries and the service is limited to subscribers to the "Journal."

Charitable Bequests.

The income of a charity, in so far as it is not derived from a business carried on by the charity, and is devoted to charitable purposes, is exempt from income-tax. An important case was recently decided by the House of Lords in *Dr. Barnardo's Homes v. Special Commissioners*, where the charity had received a share of the residual estate under a will. The testator died on 15th November 1914, but, owing to disputes, &c., the residue was not actually ascertained until 4th December 1916, and it therefore included accumulations of income which had borne tax by deduction. The charity claimed that tax on this accumulated income should be repaid to the charity, but the House of Lords held that a legatee of a share of the residue has no interest in the estate until the residue is ascertained as residual estate is in a different position from specific legacies, which date back to the death of the testator. The repayment was thus refused, and the share of the residue, plus the accumulated income, treated as one capital sum.

Substituted Standards.

It is asked by H. H. if the average capital of two or more years is to be allowed in arriving at the percentage standard for the substituted standard. In the case under review the year ends in February, therefore the last pre-war year is February 1914. It would appear that firms are entitled to 13 per cent. in arriving at the percentage standard, but the Surveyor is only allowing 11 per cent. Is this correct?

The substituted standard is the ordinary percentage standard, plus £500 for each working proprietor, and the ordinary percentage standard would be 8 per cent. on the capital at February 1914. In addition, increased capital over that at February 1914 would carry allowance at 13 per cent. Where there was not a complete pre-war trading year, the percentage standard is at 13 per cent. for a firm.

Corporation Profits Tax.

The workings of increased rates of depreciation (authorised after the payment of Excess Profits Duty) for all Accounting Periods up to, and including the year ended 30th June 1919, showed a repayment of £1,873 to be due to a company. This sum was not actually repaid by the Treasury, but a liability of £397 10s.—duty for year ended 30th June 1920—was set off against it, and the sum of £1,475 10s. was actually received in settlement. The local Inspector of Taxes gives the following, as a reason for disallowing the £397 10s. as a charge in computing Corporation Profits Tax for period to 30th June 1920:—"The Excess Profits Duty payable is the duty less any set-off for deficiencies for previous Accounting Periods which is properly allowable against that duty," which is, apparently, his reading of Section 53 (2) (g), 1920, F.A. The correspondent's contention is that the sum of £1,873 was not a deficiency, but was strictly a repayment due, as being created by overpayment of duty for previous periods. From the Inspector's ruling, it would appear that the duty for year to 30th June 1920 falls to be disallowed merely because the repayment to 30th June 1919 had not been made before the computations for the following Accounting Period were agreed. The reading of the Section of the Act as affecting deficiencies can be understood.

Income Tax Notes and Comments.

and appears to be fair, but one cannot conceive of an enactment permitting allowances to be governed by the degree of promptitude attending a repayment made by the Treasury.

The sum of £397 10s. Excess Profits Duty has been "paid" within Section 53 (2) (g), just as much as if it had been paid, and the full £1,873 repaid. The whole of the latter sum has no connection whatever with the period for which the £397 10s. was charged, and it is "duty payable or paid on account of Excess Profits Duty . . . for the same Accounting Period."

Ex-Service Men.

It is asked by "San Farian" if it is possible for an ex-service man to claim his first income-tax assessment on a three years' basis? For example, a person served two years in the Army and was discharged April 1919. Is it possible for him to claim for his assessment to be based on the average of his two years' army pay and his one year's salary as a civilian?

The average in such cases is only a concession, and it is only applied when the ex-service man is an employee, i.e. it does not attach in the case of a business.

Production of Pass Books.

A man has been in business for twenty years without taking stock, and consequently his returns for income-tax have been made up from the Receipts and Expenditure Account. Being dissatisfied at the assessment last year, an appeal was lodged, and the case was taken before the Commissioner but without success. Now, however, the Inspector of Taxes is pressing for the production of the Pass Books for the last six and a half years. "R. H." asks if he is justified in opposing his request, and whether the Inspector has power to insist upon the production of them.

If the production is refused, the Inspector can make heavy additional assessments for the past three years, except for the year for which the assessment was decided on appeal, which assessment is final. It is, therefore, advisable to accede to the request.

Double Assessment.

A friend of "Miller" has a mill, a private house, and a farm, for which he pays an annual rent of £146. The net assessment is £124. For several years he has had his Profit and Loss Account prepared by a clerk who does this class of work for a number of people locally, and the account has included the profits of both mill and farm. He has been charged with tax each year on twice the annual value under Schedule B, and also on the net profits as shown by the Profit and Loss Account in addition. He has been to H.M. Inspector of Taxes to see if he cannot reclaim some of the tax, and has been told that as the figures supplied by him have been accepted, and no appeal been made, he has no grounds for appeal. The profits shown for the mill and farm combined are less than twice the annual value.

There is a clear case of double assessment for which the law provides relief. As the profit from the farm is less than the Schedule B assessment, the applicable relief could be given by discharging the Schedule B assessment. A double assessment does not need an *appeal*, and an application should be made to the Inspector on the ground of double assessment.

Widowers.

A widower with no children employs a housekeeper to whom he pays a weekly wage. The housekeeper lives in and keeps house in a similar manner to what his wife did. Can the amount of his housekeeper's wages be deducted from his assessable income?

No allowance is permissible where the housekeeper has not charge of a child of the widower.

New Businesses.

A new business was commenced on the 1st July 1919, and the profits adjusted for income-tax purposes for the half-year ended 31st December 1919

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were £271, accordingly the income-tax assessment for 1920-21 was agreed at twice £271, i.e. £542. The profits for the year ending 31st December 1920 adjusted for income-tax purposes amount to £676. The Inspector of Taxes claims to make the assessment for 1921-22 as follows:—

Half-year to 31st December 1919	£271
Year to 31st December 1920	676
	<hr/>
	£947

Two-thirds thereof £632

making the assessment for 1921-22 £632

It is asked if the assessment ought not to be arrived at as follows:—

Twice 6 months to 31st December 1919	£542
Year to 31st December 1920	676
	<hr/>
	2)1,218
	<hr/>
	£609

The Inspector's method is that followed in practice, and is correct, as Schedule D provides that when there has not been a three years' trading the assessment shall be on the average from the date of commencement. The suggested method of doubling the profit of the half-year to December 1919, does not give an average of *profits* from commencement.

Appeal.

Profits under Schedule D.

The Inspector of Taxes raised assessments as follows, proper accounts not being forthcoming:—

Income Tax year 1918-1919	£
" " " 1919-1920	150
" " " 1920-1921	200
	<hr/>
	320

The actual profit, according to the books of the business for the 1920-1921 assessment, was only £220. Appeal was not made against the assessment until January 1921, when the Surveyor replied: "He could not entertain a claim for a reduction at so late a date."

The books have now been made up for the year to 31st December 1920, and disclose a profit of £250. It is asked if there is a right of appeal under Section 23 of the 1890 Act in this case to have the assessment of £320 reduced to £250, which is the actual profit?

Schedule A Assessment.

It is also asked what is the correct method of arriving at the Schedule A Assessment?

The following are two cases where the Surveyor of Taxes refuses to make a reduction on the basis of the Poor Rate Assessment. He argues the Poor Rate Assessment is not conclusive for Schedule A.

Case 1. Schedule A. Ass.	£23 15 0	Poor Rate Ass.	£14 9 0
Case 2. " " "	£28 0 0	" " "	£23 8 0

The appeal can only be made if notice is given within 21 days of the date of the notice of assessment. Section 23 of the 1890 Act only applied where there was a *loss* in the year of assessment.

The Poor Rate is not conclusive for Schedule A as the basis is the "rack rent," i.e. the full open market annual value. Where premises are let, the rent may be adopted as the Schedule A assessment, even though the Poor Rate assessment is lower than the rent.

Correspondence.

Audit Programmes.

(To the Editor of *The Accountants' Journal*.)

SIR,—Referring to the article upon Audit Programmes and Procedure, page 657 of your March issue, the apportionment of expenses paid in advance is mentioned as an example of a nominal liability. Surely such an apportionment is not even a nominal liability but an asset, and would appear upon the assets side of the Balance Sheet?

London, 10th March 1921.

Yours faithfully,
F. HISCOCKS.

[Our correspondent is quite right. It is a slip on the part of the author and we are obliged for the correction.—*Ed. Accts.' Journal*.]

Monthly Calendar.

April 1st, Friday.—SOUTH WALES AND MONMOUTHSHIRE CHARTERED ACCOUNTANTS STUDENTS' SOCIETY.—Debate, "Does Costing Pay?" 7.30 p.m., at 5 High Street, Cardiff.

April 4th, Monday.—BIRMINGHAM AND MIDLAND SOCIETY OF INCORPORATED ACCOUNTANTS AND STUDENTS' SOCIETY.—Lecture, "Economics," by Mr. A. P. Bardell, A.S.A.A.

April 5th, Tuesday.—LONDON CHARTERED ACCOUNTANT STUDENTS SOCIETY.—Joint debate with Chartered Secretaries Students' Society.

LONDON INCORPORATED ACCOUNTANT STUDENTS' SOCIETY.—Lecture, "Reconstructions," by Mr. H. E. Colesworthy, A.S.A.A., 6.30 p.m., at Winchester House, E.C.

April 7th, Thursday.—LIVERPOOL CHARTERED ACCOUNTANTS STUDENTS' ASSOCIATION.—Lecture, "An Introduction to Actuarial Science," by Mr. W. Worthington, 5.30 p.m., at 13 Union Court, Liverpool.

April 8th, Friday.—BIRMINGHAM CHARTERED ACCOUNTANT STUDENTS' SOCIETY.—Ten Minute Papers, 6.30 p.m., at 8 Newhall Street, Birmingham.

SOUTH OF ENGLAND DISTRICT SOCIETY OF INCORPORATED ACCOUNTANTS.—Mock Meeting of Creditors in Company Winding-up.

April 11th, Monday.—BIRMINGHAM AND MIDLAND SOCIETY OF INCORPORATED ACCOUNTANTS AND STUDENTS' SOCIETY.—Lecture, "Cost Accounts," by Mr. A. C. Ridgway, F.C.A., in The Library, County Chambers, Corporation Street, Birmingham.

April 12th, Tuesday.—LONDON CHARTERED SECRETARIES' STUDENTS' SOCIETY.—Address by Mr. W. Gladwell, F.C.I.S., 6.30 p.m., at 59A London Wall, E.C.

LONDON INCORPORATED ACCOUNTANTS STUDENTS' SOCIETY.—Lecture, "Winding-Up," by Mr. H. E. Colesworthy, A.S.A.A.

April 13th, Wednesday.—LONDON CHARTERED ACCOUNTANT STUDENTS SOCIETY.—Lecture, "London Underwriters' Accounts," by Mr. W. E. Newman, A.C.A., 6 p.m., at Institute of Chartered Accountants.

April 14th, Thursday.—INDUSTRIAL LEAGUE AND COUNCIL.—Lecture, "Increased Production Difficulties, and How to Remove Them," by Mr. Robert Young, M.P., 7.30 p.m., at Caxton Hall, Westminster.

LIVERPOOL CHARTERED ACCOUNTANTS STUDENTS' ASSOCIATION.—Joint Debate with Liverpool Society of Chartered Accountants, 5.30 p.m., 13 Union Court, Liverpool.

April 15th, Friday.—LONDON CHARTERED SECRETARIES' STUDENTS' SOCIETY.—Smoking concert, 6.30 p.m., at 59A London Wall, E.C.

April 18th, Monday.—BIRMINGHAM AND MIDLAND SOCIETY OF INCORPORATED ACCOUNTANTS AND STUDENTS' SOCIETY.—Lecture, "Works Organisations and Wages Systems," by Mr. A. C. Ridgway, F.C.A., at The Library, County Chambers, Corporation Street, Birmingham.

April 19th, Tuesday.—LONDON CHARTERED SECRETARIES STUDENTS' SOCIETY.—Two Fifteen-minute Papers by Students, 6.30 p.m., at 59A London Wall, E.C.

LONDON INCORPORATED ACCOUNTANT STUDENTS' SOCIETY.—Lecture, "The Place of Accountancy in Industrial Organisations," by Mr. Thomas Haworth, A.S.A.A., 6.30 p.m. at Winchester House, Old Broad Street, E.C.

April 20th, Wednesday.—LONDON CHARTERED ACCOUNTANT STUDENTS SOCIETY.—Thirty-eighth Annual General Meeting.

April 25th, Monday.—BIRMINGHAM AND MIDLAND SOCIETY OF INCORPORATED ACCOUNTANTS.—Lecture, "Rights and Duties of Trustees, Liquidators, and Receivers," by Mr. F. S. Saville, LL.B., The Library, County Chambers, Corporation Street, Birmingham.

Legal Notes.

By Albert Crew, Barrister-at-Law.

An up-to-date knowledge of recent decisions in the Courts is of the greatest value to accountants and business men and to students reading for their examinations. In this column are noted the salient features of the leading cases decided during the preceding month.

Bailment.

Deposit of Goods in Cloak Room and Exemption from Responsibility for Goods above Specified Value.

The plaintiff claimed damages for the loss of a bicycle deposited by him with the defendants at one of their stations. One of the conditions appearing upon the cloak-room ticket was: "The company will not be in any way responsible in respect of any article deposited, the value whereof exceeds £5, unless at the time of deposit the true value and nature of the article shall have been declared, and 1d. per £ sterling of the declared value be paid for each day or part of a day, in addition to the ordinary cloak-room charges." The plaintiff did not declare the value of the bicycle, and only paid the ordinary cloak-room fee. There was evidence that the bicycle was not put by the defendants' servants in the cloak-room, but was left in the booking hall without protection, and was stolen owing to this negligence. It was contended that the condition was unreasonable, and that the defendants' contract was to keep the bicycle in the cloak-room, and that having failed to do so they had broken their contract, and that the plaintiff was not bound by the condition. It was held by the Court of Appeal that this case was undistinguishable from *Harris v. Great Western Railway Co.* (1876, 1 Q.B.D. 515), where it was held that a similar condition applicable to loss, and where the facts were practically the same, protected the defendants, although the luggage was not deposited in the cloak-room. The appellant was, therefore, bound by the condition, and was not entitled to recover the loss sustained. *Gibaud v. Great Eastern Railway* (1921, W.N. 80).

Bankruptcy.

Moneys Paid into Debtor's Banking Account after Receiving Order.

A debtor obtained a stay of the advertisement of a receiving order against him, pending an appeal to the King's Bench Division against the making of the receiving order. After the stay had been granted, a month elapsed before the appeal was heard and dismissed. Meanwhile, the debtor obtained money from his creditors, placed it to his credit in a bank, and withdrew it. The debtor was afterwards adjudicated bankrupt. It was held that although the bank was unaware of the receiving order, the trustee in bankruptcy was, by virtue of the Bankruptcy Act, 1914, entitled to the moneys paid into the bankrupt's account during the period between the making of the receiving order and the hearing of the appeal, and that the bank was not entitled to credit themselves with anything paid out to the bankrupt during the same period. *In re G. R. Wigzell* (1921, 37 T.L.R. 373).

Bills of Exchange.

Failure in "Punctual" Payment and Days of Grace.

When a promissory note, repayable by instalments, provides that if any instalment should not be paid "punctually," the whole of the balance is immediately to become payable, the use of the word "punctually" does not deprive the maker of the note of the three days of grace allowed by Section 14 of the Bills of Exchange Act, 1882, which provides that three days, called days of grace, are, *in every case*

Legal Notes.

where the bill itself does not otherwise provide (shall be) added to the time of payment as fixed by the bill, the bill is due and payable on the last day of grace. *Schaverien v. Morris* (1921, 37 T.L.R. 366).

Companies.

Ultra Vires Action of Director, and Liability Therefor.

The objects of a company were, *inter alia*, for the purpose of manufacturing and laying down mastic cement or composition, and for all other purposes to which the invention might be found applicable. The directors promoted another company, and invested in it funds belonging to their own company for the business of laying down macadam roads, and were advised by counsel that such application of the company's funds was not *ultra vires*. The new company failed, and the investment in it of the old company's funds was lost; subsequently, the old company was compulsorily wound up, and the liquidator took out a summons in the winding-up, in which he asked that a director should be ordered personally to repay to the old company the money so lost. It was admitted that the director had acted honestly for what he believed was for the benefit of the company, and reasonably in taking legal advice, but it was contended that the power of the Court, as provided by Section 279 of the Act of 1908, to grant relief when a director had committed a breach of trust did not apply when the breach of trust was also *ultra vires*. It was held that the relief which the Court might give under Section 279 was not confined to cases of breach of trust where there was no question of *ultra vires*, and that the director, having acted honestly and reasonably, was entitled to the relief claimed. *Re Claridge's Patent Asphalte Co.* (1921, 151 L.T. 176).

Contracts.

Change of Flag during Charter.

It is a breach of contract for the owner of a vessel to change her flag during a charter-party, but the question whether the charterer has thereby suffered any damage is a question of fact in each case. *Isaacs v. McAllum* (1921, 37 T.L.R. 408).

Warranty not Part of Contract.

A written warranty cannot be relied on as a defence under Section 25 of the Sale of Food and Drugs Act, 1875 [which provides that a defendant is to be discharged if he proves that he bought the article in the same state as sold, and with a warranty] unless it is either given by the seller at the time, and as part of the contract of purchase, or in consequence of an oral contract to give a subsequent written warranty. *Jeynes v. Hindle* (1921, 37 T.L.R. 454).

Carriage of Goods, and Employment of Lighter.

The plaintiff employed the defendants, who acted as contractors for procuring carriage, to have a quantity of tin put on a steamer in the Port of London for conveyance abroad. The defendants employed a lighter to take the tin to the steamer, and the tin was stolen from the lighter. In an action to recover the value of the tin, it was held that as one of the usual terms of a lighterage contract in the Port of London was the exemption from liability for pilferage, and as the plaintiffs impliedly assented to this condition, the action failed. *Lynch v. Edwards* (1921, 37 T.L.R. 432).

Covenant in Restraint of Trade.

A covenant by a clerk to a firm of auctioneers and estate agents not to carry on "the business of auctioneers and estate agents" within a certain area for a year after the termination of his employment, is not broken by carrying on the business of an estate agent only. *Bowler v. Lovegrove* (1921, 37 T.L.R. 424).

Refusal to Accept Goods and Measure of Damages.

The defendant, in breach of his contract, refused to accept two machines which he had hired from the plaintiffs for three years at a weekly rent. The plaintiffs, whose business it was to let out machines, made no attempt to re-let these two machines. At all times material to this contract, they had more than two machines in stock. It was held that the measure of damages was not the aggregate of the three years weekly rents, but (1) the amount of the weekly rents from the time when they became payable under the contract, that is, the date when the machines were tendered, until the expiration of such reasonable time as the plaintiffs

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would have required thereafter, in order to re-let the machines on hire; (2) the cost of transport of the machines; and (3) the commission to the agent who procured the contract, if payable notwithstanding breach. *British Stamp & Ticket Automatic Delivery Co. v. Haynes* (1921, 1 K.B. 377).

Rules Governing Administration of Pension Fund and Restraint of Trade.

The plaintiff, a bank clerk in the employment of the defendants, subscribed for many years to the defendants' Officers Pension Fund. One of the rules under which the fund was administered provided that "no subscriber leaving the service of the bank for the purpose of entering the service of any other Eastern bank shall be "entitled to any return in respect of his contributions to the fund." In December 1919 the plaintiff left the defendants, and obtained a situation with another bank, which was admittedly an Eastern bank within the meaning of the rule. He then claimed to be credited by the defendants with the amount of his contributions to the Pension Fund, on the ground, *inter alia*, that the rule depriving him of the right to recover them was void as in restraint of trade. The defendants carried on business in India, and in other Eastern countries, but there were large and important countries in the East where they did no business at all. It was held that the rule covered too wide an area, and that as the area was wider than was reasonably required for the protection of the defendants, it was void as in restraint of trade, and the action must succeed. *Spence v. Mercantile Bank of India* (1921, 37 T.L.R. 390).

Sale of Goods and Extension of Time for Delivery.

Where, in the case of a contract for the sale of goods, which are to be delivered by a specific date, time is of the essence of the contract and the vendor fails to deliver by that date, and the purchaser, after such failure, elects not to avoid the contract, but agrees with the vendor to substitute a later date, the failure to deliver by such later date constitutes a breach of contract. If the purchaser, having already resold the goods before delivery to himself, has to fulfil such contract of re-sale by means of other goods, and thereby makes a greater profit than if there had been no breach, this fact does not reduce the damages which he is entitled to recover from his vendor. *Sheik Mohammad Habib Ullah v. Bird & Company* (1921, 37 T.L.R. 405).

Landlord and Tenant.

Notice to Quit Part of the Premises.

A notice to quit part and not the whole of a holding is bad. A notice to quit must be one upon which the tenant can act with security from the very moment he receives it. A notice by a purchaser to a tenant to quit a part of the farm is not subsequently validated by a notice to quit being given to the tenant by the purchaser of the remainder as to his part. A landlord or tenant who gives a bad notice is not precluded or estopped from saying afterwards that it is a bad notice. *Bebington v. Wildman* (1921, 65 S.J. 343).

Consent of Landlord to Assignment of Lease

Where a tenancy agreement provides that a tenant is not to assign, underlet, or part with the possession of the house without the consent of the landlord, such consent "not to be unreasonably withheld in the case of a respectable and responsible person," the landlord is not entitled to withhold his consent on the mere ground that he desires to have the house for his personal occupation, and has been in negotiation with the tenant for the purchase from him of the remainder of the term. *Chatterton v. Evison* (1921, 37 T.L.R. 428).

Covenant by Lessee not to Assign Without Consent.

Where there is a covenant by a lessee not to assign without the consent of the lessor, and a cross-covenant by the lessor not to withhold his consent unreasonably, and the lessor withholds his consent unreasonably, the lessee can assign without consent and without breach of covenant or liability. The fact that the proposed assignee is a new company about to embark on a new and more or less speculative business is not a reasonable ground for withholding consent. *The Ideal Film Renting Co. v. Nielsen* (1921, 65 S.J. 379).

Legal Notes.

Tenant not Entitled to Statutory Protection of the Increase of Rent, &c., Act where Lease is divested from him in case of Bankruptcy.

Where a tenant's interest in a lease has been entirely divested from him by his being adjudicated a bankrupt, he cannot, whether the trustee in bankruptcy has or has not disclaimed the lease, claim the protection afforded by the Increase of Rent, &c. Act, 1920. *Reeves v. Davies* (1921, 37 T.L.R. 431).

Notice to Quit, and Tenant Holding Over.

Where a tenant holds over after giving notice to quit, and the landlord assigns the reversion after the expiry of such notice, without having taken any proceeding against such tenant, his assignee is a "landlord" within the meaning of Section 18 of the Distress for Rent Act, 1737 [which provides in case any tenant does not deliver up possession after notice to quit has been given, he shall pay double rent], and may maintain an action for double rent. *Northcott v. Roche* (1921, 37 T.L.R. 364).

Agreement that Tenant should give up Possession and Jurisdiction of Court.

A landlord of a dwelling-house, to which the Increase of Rent, &c., Act, 1920, applied, offered the tenant £20 down if she would surrender her lease on a day named, and give them a proper notice of her intention to quit. The money was paid, and the notice to quit sent, but when the time came the tenant declined to go. Proceedings were taken by the landlord, who obtained an order in the County Court for possession, and that order was upheld by a Divisional Court. The Court of Appeal, however, held that the effect of Section 5 of the Act of 1920 (*supra*) [which prevents a landlord obtaining an order for possession except in certain specified circumstances] was to restrict the jurisdiction of the Court to make any order or judgment for possession, except in the cases specially mentioned in Section 5 (*supra*). No agreement between a landlord and his tenant can give the Court the jurisdiction which by Section 5 (*supra*) the Court is forbidden to exercise. The appeal was, therefore, allowed. *Barton & Mitchell v. Fincham* (1921, 65 S.J. 326).

"Tenant" Includes an Executor not in Actual Occupation.

The Increase of Rent, &c., Act, 1920, Section 12, subsection 1 (f), provides that the expression "tenant" includes any person from time to time deriving title under the original tenant. The tenant of a dwelling-house which came under the Act of 1920 (*supra*) died. By her will she appointed the defendant F. her executor, and the defendant O., who had resided in the house with her, residuary legatee. After the death of the tenant, O. continued to reside in the house. The landlord, by notice to quit served upon F., required possession to be given up, and as possession was not given on the expiration of the notice, proceedings were commenced against both defendants, who claimed the protection of the Act of 1920 (*supra*). The County Court Judge held (1) that there was no assent by F., as executor to O., taking the tenancy in part satisfaction of her rights as residuary legatee, and that she was not the tenant of the house, and (2) that as F. was not in actual physical occupation of the house, he could not claim the protection of the Act 1920 (*supra*). It was held that F., as executor, was tenant of the house within the meaning, and was entitled to the protection of the Act of 1920 (*supra*), although he was not in occupation of the house. *Collis v. Flower* (1921, 1 K.B. 409).

Wills and Executors.

Rule in Shelley's Case.

The rule of *Shelley's case*, 1 Rep. 104A, is as follows:—It is a rule in law that when the ancestor by any gift or conveyance takes an estate of freehold, and in the same gift or conveyance, an estate is limited, either mediately or immediately to his heirs in fee or in tail, the words the heirs are words of limitation of the estate of the ancestor. The heir, if he should take any interest, must take as heir by descent from his ancestor; for he is not constituted, by the words of the gift or conveyance, a purchaser of any separate and independent estate for himself. A testator, by his will, directed his trustees to hold a freehold house "in trust for my son William during his life, and afterwards for his heir-at-law absolutely." It was held that the use of the word *absolutely* prevented the rule in *Shelley's case* from applying, and the testator's son William only took an equitable estate for life. *In re Hussey & Green's Contract* (1921, 37 T.L.R. 407).

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Construction of Will and Ademption.

A testator bequeathed a leasehold house, and subsequently sold it, taking from the purchaser a mortgage for part of the purchase money. He afterwards executed a codicil whereby he appointed additional executors, and in all other respects confirmed his will. It was held that the testator's interest in the house as mortgagee did not pass to the legatees. *Re Richards* (1921, 65 S.J. 342).

Creditor and General Grant.

A creditor has an interest in the estate of his deceased debtor, and as such is entitled to a general grant of administration without invoking the Court of Probate Act, 1857, Section 73 [which gives the Court, *inter alia*, a discretionary power to appoint an administrator in the case of insolvency of the estate upon his giving security] and without justifying security. *In re Hake* (1921, 89 L.T., p 113).

Gifts of Personalty to a Class following Gifts to Other Persons.

D., the second son of T., the then holder of the baronetcy, made his will in August 1914, which contained this clause: "Any stocks or shares that I die possessed of to be equally divided between my two brothers, S. and A., to be held for "their lifetime only, and then to pass to the baronetcy at present held by T., or "failing an heir to the eldest daughter of S., failing which to the eldest daughter "of A." D. died in action September 1914. S. was killed in October 1914. T. died in 1915, and A., who succeeded to the title, died in 1916, and the baronetcy became extinct. The appellant, a daughter of S., claimed that in the events which had happened it was the intention of the testator that this property should pass to her. The Courts below decided against her claim on the ground that in the absence of words in the will to the contrary, the principle of law that property given by will should vest at the earliest possible moment applied, and the gift, therefore, became vested at the earliest moment that the heir to the baronetcy was ascertained, viz. on the death of T. absolutely in A. It was held by the House of Lords that where the intention of the testator is to benefit a particular person in the event of the original gift failing, and the canon of construction relied on by the Courts would produce consequences contrary to that intention, effect should be given to the wishes of the testator, and the appellant was, therefore, held entitled to the property. The true doctrine is that when an intention in a will is discovered to benefit X., the document must be so construed to give effect to that intention; that is, the paramount and manifest intention of the author of a will must not be defeated because he has tried to give effect to it in words which, in another will, have been held to indicate a different intention. *Lucas Tooth v. Lucas Tooth* (1921, 65 S.J. 377).

Books of the Month.

FUNDAMENTALS OF ACCOUNTANCY. By L. R. DICKSEE, M.Com., F.C.A. The Accountant Students' Library. Vol. I. $8\frac{1}{2} \times 5\frac{1}{2}$, vi+55 pp. 5s. n. Post free 5s. 3d. [Readers of the *Journal* will hardly need a recommendation from us to add this valuable text-book to their library. They will find it a great advantage to have these articles, which have already appeared in these columns, all together in book form. It is a book which every articled clerk and student of accountancy should read.]

THE LAW AND PRACTICE RELATING TO THE STAMPING OF COMMERCIAL DOCUMENTS. By ALBERT CREW. $8\frac{1}{2} \times 5\frac{1}{2}$, xix+164 pp. 8s. n. Post free 8s. 6d. [This is a very useful work, giving in summary form the law and practice relating to the stamping of commercial and other documents and instruments, and dealing with the subject chiefly from a commercial point of view.]

THE STUDENTS' NOTE BOOK. $8\frac{1}{2} \times 5\frac{1}{2}$. 248 pp. 11s. 6d. Post free 12s. 6d. [This book is issued by the Metropolitan College, St. Albans, with a view to assisting students preparing for accountancy and secretarial examinations. The main headings of all the subjects required for these examinations are noted, and the book is interleaved throughout with blank pages for the students' own notes. It should be found very helpful by students revising for examinations.]

BANKRUPTCY DEEDS OF ARRANGEMENT AND BILLS OF SALE. By W. VALENTINE BALL, M.A. $8\frac{1}{2} \times 5\frac{1}{2}$, vi+370 pp. 12s. 6d. n. Post free 13s. 3d. [The fourth edition of this very useful work has been thoroughly revised. It is a book we can thoroughly recommend to students of Bankruptcy Law.]

Students' Society Notes.

The Chartered Accountant Students Society of London.

Mr. William Cash, F.C.A. (Vice-President of the Institute), took the chair at the Joint Debate with the Nottingham Chartered Accountants Students' Society on the 28th February. Mr. A. R. Sweet, A.C.A. (London) proposed: "That in view of the fact that the present abnormal National Debt has been incurred by this generation, it would be unjust to leave to posterity the burden of its redemption." Mr. T. Y. Whittingdale, A.C.A., seconded the motion, and Mr. N. D. Ashley, B.A., spoke in support. The Nottingham Society took the opposition, and were well represented by Messrs. W. B. Cullen, C. C. Forrest, and J. Sargeant. About 125 members attended the meeting, and, after considerable discussion, the resolution was lost by more than 100 votes.

At the meeting on Wednesday, 9th March, three "Ten Minutes Papers" were read to the Society. The subjects were "Sterling Accounts of Foreign Branches," by Mr. R. C. Sheen, A.C.A.; "Notes on the Installation of a Costing System in a Small Business," by Mr. E. J. Stone; and "A Few Hints on Study for the Young Student," by Mr. A. R. Sweet, A.C.A. Mr. F. J. B. Gardner, M.C., A.C.A., presided over the meeting, at which about 130 members were present.

The Rt. Hon. Sir John Simon, K.C.V.O., K.C., presided at the meeting on the 16th March, when Mr. J. Wylie, C.B.E., Barrister-at-Law, delivered a lecture "Bills of Exchange." One hundred and fifty members were present. A report of the lecture will appear in *The Accountant* in due course.

The remaining meetings in connection with the Spring programme are as follows:—

April 5th, Tuesday.—Joint debate with Chartered Secretaries Students' Society. Particulars of the subject of discussion and place of meeting will be posted to members.

April 13th.—Lecture, "Insurance Underwriters' Accounts," by Mr. W. E. Newman, A.C.A. Chairman, Mr. J. Myers, F.C.A.

April 20th.—Thirty-eighth Annual General Meeting.

Sheffield Chartered Accountants Students' Society.

Following our usual course, we append a short summary of our lectures during the last few weeks:—

February 23rd.—Mr. J. C. Auty (solicitor) gave a lecture on "The Duties of an Executor." This was of a very practical nature, and threw fresh light on the subject at issue, proving of special value to Intermediate students.

March 2nd.—Mr. C. S. Dickie, C.A., gave a most enjoyable lecture on "Economics in Relation to Industry." He outlined the causes of the present trade depression, and suggested means for the deflation of currency and the reduction of our floating debt. He dealt in detail with the liquidation of the heavy indemnity due to this country by Germany, and invited a discussion amongst members on this most important problem. His invitation being taken up by several members, a lively discussion followed.

March 9th.—Mr. H. Edgar Jenkinson, F.C.A., gave a paper on "Some Notes on the Voluntary Liquidation of Insolvent Companies." The procedure in voluntary winding-up was dealt with from the standpoint of the Accountant Liquidator, and things were made perceptibly easier for our Final students.

We regret that the lecture for March 16th had to be cancelled, as the lecturer, Mr. Fogg (Union Bank of Manchester, Ltd.) was prevented from coming owing to extreme pressure of business.

South Wales and Monmouthshire Chartered Accountant Students' Society.

On Wednesday, 2nd March, the members of the Bristol Students' Society paid a visit to Cardiff for the purpose of playing a Rugby football match with our Society. Last June we met at cricket, and our members were anxious to avenge the heavy defeat then administered. The game was played on the Cae Syr Dafydd (by kind permission of the University College Sports Committee), and the conditions, unlike those at Weston in June, were perfect. It was a well-contested game, and although victory fell to the Welshmen to the tune of 19 points to nil, the Bristolians never relaxed their efforts. Tries were scored for us by D. E. Williams (2), S. L. H. Williams, T. A. Onions, and V. Holland, while Glyn Lewis dropped a beautiful goal.

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After the match, the members of both Societies met at the Dorothy Café, where the home members were given an opportunity of welcoming the visitors. At the close of tea, Messrs. Ernest Jenkins and W. J. James expressed the pleasure felt by our members at the visit of the Bristol Society, and Mr. F. M. Fry, B.A., responded on their behalf. A vote of thanks to the referee, Mr. C. Ryder, was also proposed by Mr. Dennis H. Morgan, A.C.A., and, in reply, Mr. Ryder said that he only wished that all matches at which he officiated were played in such a splendid spirit.

Owing to the poor service of trains, the visitors had to return immediately after tea, and they were escorted to the station by a number of the home members. A most enjoyable day in all respects! Teams:—

Bristol.—F. M. Fry; C. N. Hatcher, H. J. Colmer, E. A. Laurie, J. N. Baker; A. E. D. Tribe, E. S. Cotton; W. S. C. Tully, H. J. Goddard, L. H. Hatcher, F. R. Cottell, P. W. Hort, F. L. K. Crowe, A. H. Just, H. L. Bourne.

South Wales.—H. A. Jenkins; S. L. H. Williams, W. E. Harries, W. J. James, R. Morris; T. A. Onions, G. G. Lewis; E. J. Jenkins, G. H. Bond, H. L. Pope, C. Shaw, D. E. Williams, V. Holland, T. D. Evans, Fussell.

Economics has been to the fore this month in our meetings. On 11th March, Mr. P. E. Robathan, C.A., gave a lecture on "The Value of Economics to the Accountant," and on the 25th February the members of the Students' Society were invited to a lecture given before the Senior Society by Mr. Dennis H. Morgan, A.C.A., on "An Elementary Outline of Economics." The session is drawing to a close, but our hopes for a useful session have been more than justified.

The National Guild of Accountants' Clerks.

By the General Secretary.

That accountants' clerks are now becoming fully alive to the great necessity for organised effort in order to effect improvements in their general conditions is evident from the enthusiastic meetings which have been held during the past month.

If there were no other cause for dissatisfaction but the salary question, there would still be ample justification for the existence of the National Guild, but the general rate of remuneration throughout the country is so inadequate and unequal as to constitute the first consideration in the National programme of the Guild.

Accountants' clerks are beginning to view with apprehension the gradual fall in the cost of living. This, logically speaking, should be otherwise, but the consequent loss of the doles which have been meted out to very many in the names of "increases" and "bonuses" that will inevitably follow such fall, cannot fail to cause the average employee to review his economic position. It is the policy of the Guild to raise the pre-war standard of salary paid, on the ground that the accountants' clerk, as a direct fee-earning agent, was never at any time paid an economic wage comparable to his economic worth.

The scale to be adopted by the Guild, and shortly to be issued as part of the National programme, fixes the absolute economic minimum for each grade, below which it is intended that no reductions be made. The basis for the classification, with one exception, is efficiency and ability, with the right to promotion based on these two factors, coupled with seniority.

It is maintained that with the adoption of such a scale there will then be no cause for the assertion that has so frequently been made by employers, that there are now no good "senior clerks." The best men will remain in the profession instead of, as now, merely using it as a jumping-off ground for more remunerative employment elsewhere.

Every accountants' clerk is, therefore, urged to organise in order to secure remuneration commensurate with worth and join his National Guild, and not to wait until it is too late to call a halt in the process of reduction, which has already begun. Further particulars relative to the Guild's activities may be had from the General Secretary, 22 Walbrook, E.C. 4.

The Economics of the Money Market.

By John A. Todd, B.L.

The following Lectures, which we reproduce by kind permission from Barclay's Bank "Monthly Review," were delivered by Prof. John A. Todd, B.L., Lecturer in Economics, Balliol College, Oxford, to the Staff of Barclay's Bank, Ltd. The student will find the economic principles underlying the complex organisation of the money market clearly explained. As the author says, "Money in all its shapes and forms and in the fulfilling of its many functions is a great and most interesting service," and a knowledge of these functions is essential to every student of accountancy.

I.—The Market for Money and the Money Market.

The idea which I wish to emphasise in this course of lectures is that money is a commodity like many others, with its own peculiar and highly complex conditions of supply and demand, its market, and its prices, and that bankers are merchants of money in its different forms. The object of the title of this lecture is to bring out the fact that the word "market" is used in two different senses: (1) In the popular sense a market means a building or a district in which the trade in a particular commodity is carried on, such as Covent Garden or Billingsgate; (2) in the economic sense a market means the whole area over which the producers and consumers of a commodity are spread, the area of its supply and demand. Marshall's definition of a market is "Any area in which buyers and sellers of a commodity are in such free communication that prices tend to equate easily." It was to such a market that Jevons' Law of Markets or Law of Indifference applies. "In the same market there cannot be two prices for the same commodity."

Uniformity of price is the essential idea of an economic market, and this is secured by free communication in two senses of the term. (1) Mutual information as to prices, so that the buyers know what every seller is charging, and the sellers also know what the buyers are paying to their competitors, and (2) mobility of the supply of the commodity and of the demand, so that if prices are temporarily cheaper in one part of the area than another the buyers can go there, or, conversely, if the price is higher in one section than another, the supply can be moved to a more profitable area.

The extent of a market may vary greatly in respect of (a) space and (b) time, i.e. a market may be either local or international, or it may be short or long. The conditions which regulate the extent of a market in either of

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these respects arise chiefly out of the nature of the commodity as follows :— The essentials of a world-wide market are that the commodity should be one for which the demand is universal, like cotton ; that it should be easily described, sampled, or graded, so that it may be sold without being seen, and that it should be portable, which means that it must be of high value in proportion to its cost of transport, and that it must be neither fragile nor perishable.

Again, the extent of a market in point of time depends on whether the commodity is perishable or the reverse, whether the demand for it is permanent or only passing or seasonal, and whether the supply is either (a) confined to the existing stock without possibility of reproduction, (b) a regular crop with annual variations of the conditions of supply or demand, or (c) like manufactured goods, of which the supply can be increased as required practically without limit, e.g. bicycles.

The uniform market price is fixed by the conditions of supply and demand from time to time. Market price is that which balances or " equates " supply and demand, the price at which the amount offered for sale is just equal to the amount demanded, i.e. the price at which buyers are willing to buy just as much as the sellers are willing to sell. Obviously, both supply and demand depend on price. A rise in price makes producers more willing to produce, and buyers less willing to buy, while a fall in prices has the reverse effect in both cases. In the same way the price depends on the supply and demand. If a large supply is wanted the buyers must offer a good price to induce increased production. If the sellers have only a small quantity to dispose of, they will be able to do so at a high price. Thus supply and demand and prices act and react upon each other.

The methods of a market in the modern sense may be illustrated from the case of any of the large produce markets such as cotton, but these methods have been largely built up on the lines of the greatest market of all, the market for money, i.e. the Stock Exchange. The fundamental idea of these methods is to arrive at means of doing an enormous amount of work in the shortest possible time. This requires two things—(1) the utmost guarantees of *bona fides* on the part of all those authorised to deal in the market, so as to secure the sanctity of contracts—hence the restrictive regulations as to admission to the Stock Exchange ; and (2) the elaboration of methods of sale by description such as the basis price of cotton, upon which all future contracts are made. This is in the first place a method of shorthand enabling sales to be put through by a mere word and a nod of the head. It also makes it possible to sell by telegraph, which tends to secure uniformity of world prices in the shortest possible time. Again the system of sale of " futures," as opposed to " spot " transactions, in the staple commodities leads to equalisation of prices over periods of time, thus tending to reduce fluctuations of prices, e.g. from one season to another.

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The economic functions of a market, i.e. its uses to the common well-being, are not as sometimes said merely to enable middlemen to make a living. The real function of a market is to bring producer and consumer together, to utilise existing supplies and to satisfy demand. By so doing it creates wealth, for wealth consists of things that satisfy human wants, and a commodity cannot satisfy the want until the producer and consumer are brought together. Further, a well-organised market creates new demand by guaranteeing the supply, and induces new supplies by guaranteeing the demand.

How these General Principles Apply to the Market for Money.

In the first place, it is clear that money fulfils to the fullest possible extent the conditions above described as necessary to a world-wide market and a market of the most permanent character. To make this clearer, however, it is necessary to define the commodity "money" more clearly. It will then be possible to consider the supply and demand of money, in all the different senses of the word, the market conditions and methods, and the character of the price.

There are three different meanings of the word "money."

I. *Currency* money which passes freely from hand to hand without reference to the character of credit of the person tendering it. This includes (a) Standard or legal tender money, which is always metallic, and in this country is gold alone. It possesses full intrinsic value, i.e. its bullion value must always be equal to its legal tender value. (b) Token money, silver and copper only in this country, of which the intrinsic value is normally less than the face value, and which is therefore not legal tender, for note that restricted legal tender which these token currencies enjoy in this country is a contradiction in terms. (c) Paper money; this again must be classified as: (1) Representative, which is merely a document of title to a store of bullion or coins lying under safe custody, earmarked for the redemption of the paper money whenever required; our Bank of England notes are practically of this kind. (2) Fiduciary paper money which depends on the confidence of the public in the promise of the party issuing the paper. Technically, the Bank of England notes are of this character in so far as the "authorised issue" is concerned; and (3) Conventional or Inconvertible paper money, which represents nothing and promises nothing, yet which, under certain conditions, does fulfil the purposes of money as a means of exchange perfectly well.

II. *Credit*.—Though not commonly recognised, our modern credit system really covers two ideas—(a) certain methods of paying debt or doing money's work without the actual passing of any currency at all, e.g. by cheques, and (b) the system of borrowing and lending money, generally on short periods, which is embodied in the Joint Stock Bank system of deposits and discounts, in the fullest sense of these two terms. It is very striking to note how intimately these two ideas are connected with each other, both in regard

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to their historical development and in respect of the form of document by which they are carried out. Thus a cheque is a bill of exchange within the meaning of the Bills of Exchange Act, but from the point of view of the banker or a tradesman there is all the difference between payment by cheque, which is cash, and by bill, which is credit or deferred payment. I prefer, however, to include cheques as credit papers, rather than as currency, because they do actually belong to our banking system, rather than to the currency system, and, as a matter of fact, the conditions which affect their use arise out of the conditions of the money market, which depend upon the state of credit.

It is interesting to attempt an estimate of the relative amount of our money's work in this country which is done by currency and by credit papers respectively. Of the latter a very incomplete indication may be taken from the turnover of the Clearing House, which in 1919 gave a daily average of £94,000,000, or just about £2 per head per day of the total population. It is extremely improbable that the average expenditure of the whole population in currency would average 10s. per head per day, so that the amount of money's work done without currency must be *at least* four times as great as that done in currency.

III. *Capital*.—While the discount system provides much of the money borrowed on short terms for industrial and commercial purposes from the Joint Stock Banks, the greater part of the money invested permanently in industry and commerce is in the form of stocks, shares, and debentures of companies and the like, which might be called fixed capital as contrasted with the circulating capital of discounts. The real distinction between the two is that capital, in the sense in which the word is here used, means money borrowed on longer terms.

For each of these three different kinds of money let us now consider the supply, the demand, the market, and the price.

I. *Currency*.—(a) For the supply of metallic money, both standard and token, we are dependent on the Mint, which issues its supplies through the Bank of England. For the supply of bank notes England is again dependent almost entirely on the Bank of England, the total amount of the pre-1844 private issues which still survive being now reduced almost to vanishing point. The issue of these notes is vested in the Issue Department and is controlled by the Bank Act of 1844. Under the same system the large Joint Stock Banks of Scotland and England also issue notes on conditions similar to those of the Bank of England, with the exception that the latter are legal tender in England only, and, of course, not by the Bank itself (which must redeem the notes in gold when required). The Scotch and Irish notes were also given the privilege of legal tender during the war, but this has now been withdrawn.

The war has also introduced us to the Treasury Notes or Government currency notes, which are entirely in the hands of the Government, though issued through the Bank of England to the Joint Stock and other Banks.

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The total amount of currency in all these senses was recently estimated as follows :—

	June 1914	January 1920
Gold, Silver, Copper and Bank Notes—		
In circulation	£128 millions	£393 millions
Held by the Banks	75 "	191 "
	<hr/> £203 millions	<hr/> £584 millions

(b) The *demand* for currency in this country depends mainly on the requirements of the banks for till money, which, again, depends on the public requirements for money in their pockets, e.g. for the payment of wages and for ordinary shopkeeping purposes. The most characteristic movement in the demand is the seasonal fluctuation at bank holidays, Christmas time, &c.

(c) There is no *market* for money in this country, in the ordinary sense of the word. The supply is given freely by the Bank of England whenever required, at fixed prices. It is, of course, quite otherwise in many other countries, especially Oriental, where the amount of silver or copper change obtainable for the nominal standard coin is a matter of negotiation with the money changer and varies from day to day.

(d) The *prices* of currency in this country are fixed and have never varied since the present currency regime began in 1816. A gold sovereign contains 7.98805 grammes of gold of the fixed standard of eleven-twelfths fine, which means that standard gold is worth £3 17s. 10½d. per oz., or, in other words, that 40 lbs. Troy, i.e. 480 ozs. of standard gold are coined into 1,869 sovereigns. The prices of the silver and copper token currency are fixed in relation to the gold standard coin, and have never varied even to-day, when, owing to the phenomenal rise in the gold price of silver the shilling is now worth about rs. 4d. This, however, like the fact that the nominal price of gold has been as high as £6 os. 10d. per oz., is more a matter of the foreign exchanges than a real price of silver. Fortunately, copper has not given any similar trouble, as the present price is only about .8d. per oz., and it takes three pennies to make an ounce weight.

But while the prices of our currency have remained fixed, their values, which are a very different thing, have suffered serious depreciation during the war. The value of money is its purchasing power, and is in inverse ratio to the rise of prices, and from that point of view our experience during the war has been very unsatisfactory.

II. *Credit*.—(a) For the *supply* of money upon which the credit system works we are indebted to the Joint Stock and private banks of the country, including, of course, the Bank of England itself. In addition to these home sources of supply we also receive considerable supplies of loanable money from foreign sources, which finds its way to London as the central money market of the world.

(b) In the same way the *demand* for credit springs from the country's internal trade in the first place, and also from the enormous amount of

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financing of foreign trade which is done through London. The share in this demand taken by Government requirements will be dealt with in the third lecture.

(c) The *market* for credit is in the first place in the Joint Stock Banks throughout the country, which directly supply the actual requirements of home industry. Prior to the war they handed over to Lombard Street such balance of their funds as they could not safely employ themselves in their discount and other lending business, but now the old specialisation of the London Money Market into home and foreign business is rapidly disappearing, and most of the London Joint Stock banks are doing a large amount of foreign business. Lombard Street, however, still receives large balances from the banks and other sources as "call money," and with this and its own resources does a large business not only in home discounts and other home business, but also in other business which has its origin in foreign trade. That will be more fully dealt with in the second lecture.

(d) The *prices* of the different kinds of money which are really credit are found quoted regularly in such financial journals as the *Economist*, where not only the bank rates, the London rates for bankers' drafts, trade bills, Treasury bills, deposit rates, short loan rates, &c., are quoted, but also the corresponding rates in foreign countries and the rates of exchange between us and them.

III. *Capital*.—(a) The *supply* is drawn from the enormous and constant savings of our people of every class, which depend on two things—the possession of a surplus and the security which is essential to saving. Of the latter a very important feature is the security offered by good investments, and in this country the development of the joint-stock company has played a very large part in this, by enabling small investors to take a limited risk.

(b) The *demand* for capital comes mainly from the needs of our industries (including agriculture) and commerce, as well as from the demands of the State and of municipal and other local authorities.

(c) The *market* for capital is the Stock Exchange, in which every kind of security finds its level, according to the market opinion of its value as a risk.

(d) The *prices* of capital of every kind are the yields of different classes of investment which may be calculated from the quotations shown in the lists of the Stock Exchange, from gilt-edged investments down through other trustee stocks to industrials of all kinds, and purely speculative enterprises. To this must be added the opportunities for other investments not dealt in on the Stock Exchange such as the real estate market.

II.—Foreign Trade and the Foreign Exchanges.

In considering the demand for money for foreign business, and the supply, it is interesting to recall the three functions of money and to see how the different kinds of money fulfil these functions in home and foreign trade

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respectively. They are as follows : (1) As the means of exchange, money breaks up barter into sale and purchase, i.e. into two acts of barter, one of goods for money, called sale, and the other of money for goods, called purchase. (2) As everything is exchanged for money, the value of everything comes to be expressed in terms of money, and money becomes the common measure of value, or standard of value. (3) It naturally follows that money becomes the standard of deferred payments, or Register of Debt. Obligations to repay at a future date, instead of being expressed in terms of the goods out of which the obligation arose, are expressed in terms of money. For this purpose, it is essential that the value of money should be stable, instead of varying from time to time.

In home trade currency is the primary means of exchange and metallic money is the standard or common measure of value. Credit in the first sense in which the word is here used, viz. means of doing money's work without the use of currency, as in the cheque system, is also a means of exchange. Credit in the other sense of deferred payment, and capital in the sense of money invested on long loans, are more akin to the idea of money as the standard of deferred payment.

In foreign trade, currency plays practically no part as a means of exchange. Gold is used to a small extent, but rather as a commodity than as money. The bulk of the work is done by bank drafts, which are practically cheques' bills of exchange, and other credit papers. But credit in the other sense, i.e. deferred payment for short periods, is an important factor in foreign trade, and capital in the sense of permanent debt also enters very largely into the balance of trade.

The theory of international trade is that the object of foreign trade being a mutual gain of subjective utility, each country should produce those commodities in which it has the greatest natural advantages, and export the balance of that commodity (over its home requirements) in payment of other commodities which it can get from abroad with advantage, either because it cannot produce them at all at home, or because it can import them more cheaply. This theory of comparative cost, as it is called, may result in the paradox that it pays a country to import goods which it could produce more cheaply at home, if by so doing it can devote its energies to the production of other goods in which it has a still greater advantage. The relative advantage of production usually resolves itself into cheaper cost of production.

The theory of the Balance of Trade is that each country must pay for its imports with its exports, and take payment of its exports in imports. But to make this true, a wide definition of "Trade" must be taken, so as to include more than physical goods, e.g. services, such as transport, for which freight is payable (out of the enhanced value of the goods), banking, insurance, and other commissions, and services to tourists. But the most important factor in the adjustment of the balance of trade is the creation or extinction of debt or the payment of interest thereon.

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The balance of trade was supposed, before the war, to be maintained by the variation of the rate of exchange, because the price of foreign bills depends on the relations of supply and demand, which again depend on exports and imports. If there was, say, an excess of imports, the demand for bills put up the rate of exchange until it touched the gold points, when gold was exported. But the actual movement of gold was never large enough to affect the balance of trade seriously, and it is now clear, as the result of the experience of the war, that gold never could be exported in sufficient quantity to meet a really large excess of imports because (1) no nation has sufficient gold to do so, and (2) no nation could take payment in gold to any really large extent. The real effect of the movement of gold was brought about in another way. Owing to our centralised bank reserve system, the effect of a drain of gold was to make the Bank of England raise the bank rate. This produced a stringency in the money market affecting home as well as foreign requirements, by restricting discounts and causing a contraction of credit. This tended to produce a contraction of speculation, a fall in prices, and a general condition of tightness, which restricted imports and in course of time encouraged exports. In the meantime, the raising of the bank rate caused the rate of exchange to move in favour of this country, thus making it more attractive to send money into this country instead of taking gold out. Thus the gold movement merely acted as a trigger setting in motion a series of forces, all of which tended to counteract the causes which had originally produced the rise in the rate of exchange. But the real cure was the movement of money to London, i.e. it meant that foreign countries lent money to London to square the excess of imports. Thus the real balance of trade was not gold, but credit, and a continual process went on in this way of creation or extinction of debt (as well as the payment of interest on existing debt) which really meant that the balancing of goods against goods was postponed. Payment must ultimately be made in goods; but for the time being they were paid for by credit, i.e. they were not paid for at all.

Thus the balance of trade was never true at any one period, nor in any one year, nor between any two countries. It was never true of goods, i.e. "trade" alone. Every country was all the time creating new debt, paying interest on old, or extinguishing old debt, and all in the form of exports or imports of goods and services as required.

It appears, therefore, that the rate of exchange was never, as we were inclined to think before the war, the *regulator* of foreign trade, but only the *barometer* of the tendencies of trade, and that the movement of gold was not the balancer of the unequal exports and imports of goods, but that the real "closing entry" on one side or the other of the periodical Balance Sheet was credit, either in the form of temporary finance or permanent debt, including the sale of foreign securities from time to time.

The experience of the war has brought this home to us, because it upset the normal balance of trade so completely. In our case, for instance, this

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was due (1) to the stoppage of trade relations with the enemy countries, thus upsetting the many-sided character of the normal balance of trade, which is not direct between any two countries, but indirect through many countries. (2) By the changes it made in our own internal production. Owing to the need of munitions, many of our industries were turned over to their manufacture, fewer goods were made for export, and we had to import enormous quantities of raw materials and finished munitions from various countries. Thus our trade suffered an entirely new orientation. Our exports to neutrals fell off and our imports from them increased enormously, with the result that we became debtor to countries of whom we had always been creditor. On the other hand, we were running up enormous credits against our Allies to whom we were supplying war goods of all kinds.

When the balance of trade with America, for instance, began to go against us like this, we tried to meet it in the old way by raising the bank rate, in the hope of correcting the exchanges, and exporting gold. But America soon had enough gold, and still the exchanges went down. Thus we had to organise the sale of securities on a large scale, and, finally, to create new securities by borrowing largely from the United States. It was in this way that the exchanges were "pegged," i.e. maintained at artificial fixed levels during the war, and our heavy purchases financed.

Now that the war is over and the blockade is being relaxed, the position of foreign trade is still completely upset; the half-starved countries of Europe are in urgent need of food, clothing, and raw materials, and cannot pay for these immediately in goods. Their exchanges are therefore more adverse than ever, and as we have to finance them to a large extent with our own goods and with America, our own exchanges with America have gone heavily against us since they were unpegged in March 1919. But, as will be seen from the following table, our own balance of trade is not nearly so bad as people think, especially if it be taken not merely on present inflated prices, but in comparison with the price levels of a normal pre-war year, say, 1900 :—

IN MILLIONS OF POUNDS.

Period	Imports	Exports	Apparent Excess of Imports	Index Nos. of Prices	Apparent Excess on 1900 Basis
1900	523.1	354.7	168.7	100	169
1913	768.7	634.8	133.9	116.5	115
1914	696.6	526.2	170.4	117.2	145
1915	851.9	483.9	368.0	143.9	255
1916	948.5	603.8	344.7	156.5	185
1917	1,064.2	596.8	467.4	243.0	192
1918	1,319.3	529.4	789.9	267.4	293
1919	1,635.5	962.6	672.9	296.3	227

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Period	Imports	Exports	Apparent Excess of Imports	Index Nos. of Prices	Apparent Excess on 1900 Basis
Jan. ..	134.5	51.9	82.6	288.5	29
Feb. ..	107.1	52.0	55.1	289.8	19
March ..	105.3	62.1	43.7	290.3	15
April ..	112.2	71.5	40.4	293.3	14
May ..	135.7	75.8	59.9	274.7	22
June ..	122.9	76.5	46.4	277.7	17
July ..	153.4	77.1	76.0	281.4	27
August ..	148.2	90.1	58.7	299.7	20
Sept. ..	148.6	82.2	66.4	308.0	22
Oct. ..	150.5	95.7	54.8	319.3	17
Nov. ..	143.6	107.4	36.2	336.4	11
Dec. ..	169.7	117.0	52.7	345.6	15
Jan. 1920 ..	153.5	131.3	52.2	—	—

Again, while the rise of prices inflates our imports, it also adds to our invisible exports, e.g. freights, and while our claims for debt charges against many of our new debtors are not enforceable for the moment, interest upon part of them ought to be recoverable soon. It is probable, therefore, that our balance of trade, if we stood alone, would soon right itself and bring us back to something very like our pre-war position. But we do not and cannot stand alone. We must support our Allies in reconstruction, as we did in war, and now we have also the burden of supporting our former enemies, or they may bring us down too in the crash of their fall.

That means that they must receive still further loans, especially of food, clothing, and raw materials, before they can begin to pay interest on the war debts or, in the case of enemy countries, any sort of indemnity. This inevitably prevents the foreign exchanges from returning to normal, and the fact that the currencies of Europe have, in many cases, been so monstrously inflated, makes their exchanges still worse ; indeed, so bad in some cases as to be almost beyond hope of ever getting back again to the pre-war standards.

Under these conditions there is no quick cure for the trouble. International action, not necessarily Government action, may help a great deal. Countries like America must realise (1) that they cannot stop trading with Europe, because America can no more consume her own raw materials than Europe can do without them ; (2) that they cannot be paid immediately in equivalent goods for these exports ; (3) that they cannot take payment in gold for such enormous sums, e.g. America's excess of exports in 1919 was said to be 4,000 million dollars, and, therefore, (4) they *must* give credit. That does not mean that the seller of raw cotton must be out of his money indefinitely. It will probably be done by the constitution of large " trust " companies in America, which will buy selected European securities and raise the money by issuing their own stock to American investors.

But if America is to undertake this work, she will probably stipulate, for her own protection as well as for the good of the borrowers : (1) That the goods she lends must be used for production, not for destruction, such as

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war, and (2) that Europe must stop the further excessive issues of paper currency.

This means, in effect, that the proposed international body which is to regulate this new financing of Europe will, in effect, be a financial League of Nations, and the head of it must be the United States, which *refuses to join the League of Nations*.

III.—Government Finance.

The Government's demand for money, and the supply, vary greatly in peace and in war time.

In peace time the Government's demand for currency is just like that of any other large administrative office or employer of labour, e.g. for the Post Office officials. Most of its payments are made by cheque. It requires to borrow considerable sums during the normal year because many of its payments have to be made in advance of the recovery of the taxes. This is done usually by Ways and Means Advances from the Bank of England, though during the present century the method of Treasury Bills has also been largely resorted to, even before the war.

In normal times the capital requirements of the Imperial Government should not be very large; but those of the local governments have during the past century been increasing rapidly until before the war the total amount of borrowings by local authorities was about as much as the National Debt.

The Government must, as a rule, cover its annual expenditure out of its annual revenue. The Budget should provide the necessary funds for all expenditure, except upon productive works or those of lasting benefit, which may fairly be met by loans. The annual budget, however, must include provisions for a sinking fund upon such loans.

In war time, however, the Government's demand for money of all kinds is enormously increased. The increase of the fighting forces means a large increase of pay, and separation allowances. Munitions wages also greatly increased the demand for currency, and the unemployment allowances after the Armistice prolonged this demand. Gratuities on demobilisation, even quite large sums, were, it is said, paid in currency notes.

The extension of such businesses as Messrs. Cox and Co. (the Army bankers) shows how the Government's payments by cheque increased during the war. To meet all this expenditure the Government had to incur abnormally large amounts of floating debt, in the usual forms, and also others, such as Exchequer Bonds, National War Bonds, War Savings Certificates, &c. The following table gives certain statistics of the amounts which had to be raised in these ways, and also in the more permanent forms of funded debt. Similar figures for the three previous great wars are given for comparison.

The following points should be noted in these statistics :—

- (1) The total cost of each war.
- (2) The proportion thereof borne out of taxation during the war, as compared with the part thrown on posterity by borrowing.

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- (3) The total debt remaining at the end of the war.
- (4) The capacity of the country to bear the burden of post-war finance as indicated by the national income per head, and the percentage of the taxation to that income.

U.K. FINANCE OF PREVIOUS WARS COMPARED WITH THE GREAT WAR.

Founded on British Association Reports (Economic Section) and the
"Economist."

	Napoleonic Wars		Crimean War		Boer War		Great War (Estimates)	
Dates	1793—1815		1854—1856		1899—1902		1914—31/12/19	
Duration	22 years		3 years		2 years		5 years	
Cost to United Kingdom ..	£831 millions		£67½ millions		£211 millions		£10,656 millions (gross)	
Raised by taxation	£391 millions		£35½ millions		£68 millions		£3,374 millions	
Percentage of total	47		53		32		32	
War Revenue (Annual) ..	£19½ millions		£13½ millions		£25 millions		£109—£1,090 millions	
Raised by loans	£440 millions		£32 millions		£143 millions		£7,282 millions	
Percentage of total	53		47		68		68	
TAXATION BEGINNING AND END OF WAR	Begin- ning	End	Begin- ning	End	Begin- ning	End	Begin- ning	End
Annual taxation per head ..	20/-	70/-	42/-	48/-	44/3	55/6	75/6	£24
Annual debt charge per head	13/-	35/-	22/-	23/-	11/6	13/6	10/6	£7 10s.
National income	£250	£350	£500	£550	£1,600	£1,800	£2,250	£4,000
	mill.	mill.	mill.	mill.	mill.	mill.	mill.	mill.
National income per head ..	£17	£18	£20	£22	£40	£45	£50	£80
Taxation per cent. of income	6	20	11	12	5½	6½	7½	30

Of the total cost of the war above shown, £1,852 millions are accounted for by loans to the Dominions and our Allies. If these be deducted from the total cost, the percentage of the net total raised by taxation is raised to 38, a very satisfactory figure considering the enormous cost of the war. The total deadweight debt remaining at 31st December 1919 was £7,998 millions, which by 14th February had been reduced by £85 millions. The total debt charge included in the Budget for 1919-20 is £360 millions, the total figures being as follows:—Revenue, £1,168.65 millions; expenditure, £1,642.29 millions; deficit, £473.64 millions.

For the supply of these enormous sums Government had, of course, to resort to abnormal measures. The first difficulty in the pre-war crisis of the last week of July 1914 was the shortage of currency, due to the insufficiency of gold and the fact of England having nothing less than £5 notes. It was commonly said at the time that this was partly due to the policy of the Joint Stock Banks in refusing gold, and it is very desirable that the facts on this point should be stated authoritatively. In any case, the first issue of currency notes was an absolute necessity, because the country had run dry of change, and, secondly, because had some such provision not been made, it is almost certain there would have been a run on the banks when they reopened after the prolonged bank holiday and they would have had no money, i.e. currency

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in which to meet their obligations. The latter fact explains the method adopted for the issue of the currency notes, namely, through the banks, which were authorised to borrow them from the Government up to 10 per cent. of their liabilities.

The subsequent large issues of currency notes have raised two controversial points with regard to them :—

(1) Are they convertible? Undoubtedly they are, technically, for the Act specifically provides for their redemption at any time at the Bank of England in gold, which is more than they are legally entitled to, for being a debt of under £2, they could have been paid in silver. But while the Bank of England cannot refuse gold, it is of no use to anyone, because it can neither be exported nor melted down for use in the arts, so that the convertibility is ineffective.

(2) Are they then a forced currency? Technically again, no, because the Government does not issue them directly to its creditors in payment of its own debts. The notes are issued through the Bank of England against securities, i.e. Government obligations upon which interest is payable. This interest goes into the Investment Reserve Account in the Currency Notes Return, and seems to be used for the writing down of the securities as their market value depreciates. But what will be done with the final balance of this account if and when the currency notes are finally withdrawn? Practically speaking, the immediate effect of the issue of currency notes was to withdraw perhaps 80 to 100 million sovereigns from the pockets of the public, which was the right thing to do, for the justification of a gold currency in actual circulation has always been that it formed a reservoir of gold for use in an emergency.

It is more difficult to come to any reasoned judgment on the merits or otherwise of the Currency Note issue in the later years of the war, and especially since the Armistice. The issue still went on increasing up till April 1919, when after a slight fall for a few months it went up to a new record at Christmas time, which, of course, is only normal. Since then it has been brought down to the lowest point since April last, but at the same time there has been a marked increase in the issue of Bank of England notes so that there is no actual reduction of the amount of paper currency in circulation.

It is very striking to notice, however, that since the Armistice the movement of the general level of prices as shown by the Index Numbers has given no sign whatever of any relation between the two, in fact, quite the contrary. Prices were falling while currency note issues were still rising. Then in April, when currency notes were reduced, prices began to rise again, and prices are still rising, while the issue of currency notes is again being reduced. This seems to indicate that since the Armistice, at least, we must look elsewhere than to currency notes for the causes of the movement of prices, and remembering the depressed conditions of trade immediately after the Armistice and its recovery since last April it is very easy to do so.

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It is, however, in the methods adopted by the Government during the war to meet their enormous requirements for credit and capital that they have been subjected to the most general criticism. These two must be taken together in this case, because the distinction between floating and funded debt to which they are analogous, has almost been lost sight of during this war. The floating debt was raised (1) by Ways and Means Advances entirely from the Bank of England; (2) by Treasury Bills, Exchequer Bonds, National War Bonds, &c., mostly from the public, but largely also by direct borrowing from the banks; (3) by War Savings Certificates almost entirely direct from the public, though the banks may have assisted temporarily; (4) by large funded loans of which the banks took up considerable amounts, and still further amounts were taken by private individuals with the assistance of the banks to finance them. The following statistics show the effect of all these loans upon the banking statistics of the country, in the increase of deposits and bank investments. Discounts are also affected because some of the banks included Treasury Bills under that head.

BANKING STATISTICS.

Founded mainly on the "Economist" Banking Numbers.

December 31st ..	1895	1900	1905	1910	1913	1914	1915	1916	1917	1918
Clearing House Returns	7,593	8,960	12,288	14,659	16,436	14,665	13,408	15,275	19,121	21,195
Bank Capital and Reserves	124	130	132	132	132	131	130	129	132	143
Deposits	731	827	863	974	1,104	1,292	1,407	1,624	1,872	2,161
Note issues	40	46	44	44	47	58	64	75	88	126
Bank of England..	26	30	29	29	30	36	35	40	46	70
Scotch, Irish, &c..	14	16	15	15	17	22	29	35	42	56
Cash and call money..	210	222	250	277	328	409	381	508	586	691
Investments	213	228	223	236	223	258	473	516	540	609
Discounts	476	552	567	636	736	806	745	800	969	1,117

It will be seen from these statistics that there was a very marked increase of the total deposits during the war, and this inflation of credit undoubtedly helped to cause the rise of prices. In discussing the question, however, it must not be forgotten that large financing was required for the production of munitions whether by the Government itself or by private factories, and that the nation's total production *including munitions* during the war must have been several times greater than it was before the war, especially when the rise of prices began to take its effect.

The further question of whether the policy of dear money first inaugurated in 1915, subsequently abandoned by Mr. Bonar Law, and apparently again in favour since November last, was sound, will have to be threshed out by posterity, when the full facts and the results can be considered calmly. So far, we can only say that it seems to have failed entirely in its objects of checking the rise of the rate of exchange or the rise of prices.

The question of the exact shares of culpability for that rise to be accorded to the currency notes and the credit inflation which brought them forth, will

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also be for a later generation to settle, but the writer's own view is that the currency notes were not the cause but only the means of the inflation, and that the real cause of the inflation was not even the particular methods of the Government in securing the money. The very fact of the Government requiring to borrow such stupendous sums and spend them on destructive production is of itself enough to have caused a rise of prices. The spending power of the population as a whole was increased enormously by the war, while the amount of civilian goods upon which that money was to be spent had actually been reduced. What else could happen but scarcity, competition, and a rise of prices? Since the Armistice especially, these causes have been working more obviously, and it is probable that it will be a considerable time before the present dearth of goods of almost every kind is satisfied.

There is, of course, no easy cure available, but the following are the lines upon which the remedy must be sought :—(1) Stop spending money, whether borrowed or raised by taxation, on destructive work, i.e. war. But borrowing for productive purposes, e.g. for housing, education, reconstruction of devastated areas, or Empire development, must go on, and will pay. (2) Stop the further creation of excessive currency issues and do everything possible, without actually bringing things to a standstill, to reduce the amount already in existence. (3) Increase production, not only of manufactured goods but also of the necessary raw material. This is not merely a question of increased hours of labour, but of organised co-operation by labour, capital in the form of machinery, and finance, to secure a larger output. Till that is done, the prime cause of the trouble, namely, scarcity of staple commodities, can never be removed. In this, finance must play a very large part, for Europe is quite unable to resume work without raw materials, &c., which she does not possess and cannot pay for in the present condition of her exchanges. Credit in one form or another must be given by the sellers of the goods required, or by others who are able to finance them.

Summing up the whole course, it must be clear that the Money Market and the market for money are extremely complex in their organisation and far-reaching in their effects. London is still the hub of the universe, for money is still the nerve centre of all our industries, and of our trade both home and foreign. The service of money in all its shapes and forms and in the fulfilling of its many functions is a great and most interesting service, which, in these days, calls increasingly for the best type of skilled men.

“Statistics—Their Uses and Abuses.”

By A. G. Turner.

This Essay was awarded the prize in the Final Division of the February Competition.

Chapman defines “Statistics” as “Numerical statements of facts in any department of inquiry, placed in relation to each other.”

Statistics are mainly useful for making comparisons, as, for instance, comparing the costs of similar operations in works making similar articles. It is not enough, however, to compare aggregates, or costs, unless they are similar, i.e. unless they are compiled from the same formulæ, with the same bias, according to the same definitions. A doctor's prescription is hardly likely to be of benefit to the patient unless the dispenser mixes the proper drugs and ingredients as set forth by the doctor. Should the patient have a recurrence of the malady when away from home, the prescription, or aggregate, will not benefit him if the chemist does not make up the uniform medicine. And so, when comparing costs of the same firm for any number of years, one is fairly assured of uniformity of method in making up the aggregates. But one has no such assurance when comparing the costs of firms under different managements. The effective prescription of one town or works is of no benefit to an investigator in another town or works. It is assumed, of course, that the firms concerned are producing the same kind of article. The one firm may include (say) interest on the capital value of the plant; the other may include (say) a provision for Excess Profits Duty: the one may include provision or allowance for “scrap” material; the other may include a proportion of the advertising charges. The necessity for labouring this point is perceived, and understood the more readily, when it is stated that before the significance of any table or “numerical statements of facts” can be appreciated, one must know how the data have been compiled; what has been included; what has been omitted.

The statistician fixes upon the department of inquiry in which he will labour, and he has a fairly wide field and scope for his efforts. Before he can commence the “placing in relation to each other” of his “numerical statements of facts,” he must first obtain his facts, aggregates, and groups. The principal sources of National Statistics are:—

- (1) Statistical Abstracts issued by the Board of Trade.
- (2) Registrar-General's Report of Births, Marriages and Deaths.
- (3) Reports of the Local Government Board.
- (4) Agricultural Statistics.
- (5) Reports of Commissioners of Inland Revenue.
- (6) Reports of Commissioners of Customs and Excise.
- (7) Navigation and Shipping Statistics.
- (8) Special Reports on the Census, Income-tax, Wholesale and Retail Prices, Wages, Standard Time Rates, Standard Piece Rates, Rents, Prices and Wages in the United Kingdom, and so on.

Numbers (1) to (7) are Government Annuals. The details of number (8) are set out in Appendix II of Bowley's “Elementary Manual of Statistics,” and are also issued by the Government (as Blue Books).

There are other sources of information available in the figures published in Trade Journals, and summarised from time to time in the *Statist* and *Economist*. The Great War was the means of rendering available a lot of information as to the vital powers of the nation as a whole, through the highly-efficient Medical Boards set up all over the country. The various national disputes (e.g. miners', railwaymen's, and dockers' strikes) furnished materials for Blue Books, as did the various inquiries on the costing of cotton thread, and of woollen manufactures. Having, then, decided on the department of inquiry, one must know how the various aggregates and tables have been compiled, and what definitions have been decided upon and accepted, and what details have been rejected.

"Statistics—Their Uses and Abuses."

It is not proposed to go deeply into this subject, for an essay is only intended to be an indication of the "interest" possibilities of its heading; to be a preface, as it were; as, indeed, writers and poets of the eighteenth and nineteenth centuries so regarded it.

It will be assumed, therefore, that the limitations attached to the aggregates and groups are understood by the statistician, and he proceeds to "place in relation to each other" his ascertained and reliable "statements of numerical facts." He can show the present-time numbers of unemployed as compared with those of three, six, nine, or twelve months ago. He can compare, by means of index numbers, the cost of living to-day with the cost of one, two, or three months, or even years, ago.

He can show the figures of Vital Statistics in relation to the figures for "the corresponding quarter of last year"; or even follow the lead of a certain daily paper, and give "net sale" figures or advertising results in various areas over which the influence of circulation extends.

These examples are only a few of the uses to which statistics may be put, where one deals only with "similar" groups. An investigator is not satisfied as yet, for he wants to put in use another technical term called "Correlation." The "Eldertons" in their "Primer of Statistics" say: "It is frequently more important 'in statistical work to deal with the relation of two things to each other than it is to 'examine the variations of one thing alone.' Examples of Correlation are:—

Relating the birth—or marriage—rates with the rise and fall in the cost of living.

Relating the amount of unemployment to the number of convictions for various offences of violence or robbery.

Relating the volume of traffic on a railway with the cost per train-mile run.

Mention of index numbers will prompt a query as to what they are, and how they are obtained. Bowley tells us in his "Elementary Manual of Statistics" that "index" numbers can be taken as showing with approximate correctness the general change "of prices of the group of commodities to which they relate."

The statistician takes the quoted prices of the same qualities of various commodities in each month. A particular year is fixed upon to serve as the standard of comparison, and the average prices ruling for the qualities of the various commodities taken, is ascertained, and equated to 100. The prices of the month are then expressed as percentages of the average price for the "base" year of the corresponding quality of commodity. Having obtained these monthly percentages, the index-number is their average.

Readers of *The Accountant* will have noticed the periodical appearance of extracts from the *Statist*, giving tables of index-numbers for various commodities, and then the average of all is stated. There is also usually a comparison between the index-numbers available for various countries, such as the United Kingdom, America, France, and Japan. They show numbers for materials and foodstuffs separately.

In the United Kingdom, index-numbers are compiled upon three different systems, and it is a commonplace amongst statisticians that the curves plotted over a series of years from each system show substantially the same characteristics.

Imports total values are taken as regards commodities, for which an average price can reasonably be fixed. This obviously excludes works of art, prize bloodstock, rare foreign stamps, and such-like details. The total number of units (e.g. bushels of wheat, standards of timber, pounds of tea) are then divided into the actual values accepted, and thus an average price is obtained. This is altogether different from a quoted market price.

Prices of cereals are obtained in this country by taking the average of the market prices all over the country; the prices of minerals (coal, salt, &c.) are calculated by dividing the number of tons produced into the estimated value at the place of production.

Most statistical papers make some references to the purchasing power of gold, and a study of the fluctuations in the index-numbers shown in *The Accountant* for 5th February 1921 will fill up an hour or so of the leisure-time of students so inclined. Dealing with a period of fifty years, from 1862 to 1912, during which time the currency of the United Kingdom was on a gold basis, we notice that the highest recorded value was reached in 1873=111. The average of the previous ten years works out at about 101, and shows a period of great price inflation. Then the inevitable decline took place, and 1887 showed figure of 72, which figure was maintained for an appreciable period. Another decline followed, being continued until 1896, and the nadir was reached at 61. Prices rose then evenly and steadily to 1912, the curve only

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showing excrescences in 1900 (75) and 1906-7. Prices "firmed" in 1912 at 85, and then the great war upset values so drastically as to compel most people to have an interest in "index-numbers."

The principal applications of statistics to every-day affairs are divided into three sections dealing with the past, present, and future. Experience is only of use when one learns the lessons it teaches. A bird knows how to build a nest by instinct, but instinct is said to be the result of the experience of generations of forbears. A leveret (young hare) does not inherit any instincts for self-preservation, and only knows one master—Fear, who paralyses him so that he remains "frozen." So, by the figures gathered in the past, one learns how, when, and under what circumstances national prosperity expressed in terms of population, wealth, and trade has waxed and waned. Comparison and analysis are indulged in so as to find out why these changes have taken place. In order to exemplify a case, one may take the occurrence of a rise in "Costing." The records will probably show the figures for past periods, and these can be plotted on a diagram. The costs of each operation can be shown on a cumulative diagram for any period, and any undue variation noted and tracked down.

By means of Trade Committees of a group of manufacturers (say of cutlery), costs at different stages of manufacture can be compared. To this end, it is necessary to put into practice the uniformity basis of the Ministry of Munitions, which issued standard costing sheets for all operations, and oncost was dealt with under separate distinctive "heads." It may happen that a particular works has an average figure for material and labour, but the "oncost" charge is much heavier than at other places. This may be due to, say, borrowed capital (interest charges); heavy rates; distance from railway or markets (haulage charges); excessive expenditure on repairs; number of handling operations; and so on. Once the excess has been tracked down, the works may be shown to be violating a fundamental law of Economics by not carrying on trade at the best time, in the best place, and in the best possible manner, and the facts can only be brought to light by competent statistical analysis and comparison with similar costs of a similar industry. Having got so far in our investigations, we are faced with a possibility of having abused our statistics. This may happen because we have used for an example a selected works in a selected district, and Elderton tells us that it is absolutely necessary to pick at random, that we must not expect true results or comparisons by taking abnormal units. Had we compared the results of a business with the average results of all others in the same line, we would feel safer; it is only an application of the old adage, "there is safety in numbers."

The application of statistics to present-day uses is mainly in connection with the estimates of Government Departments regarding the probable yield of a new tax; with the estimates of railway, tramway, and haulage companies as to the probable traffic from new routes; with the estimates of public bodies as to the quantity of water required by a town, or the numbers of new houses required to alleviate overcrowding. These examples are sufficiently self-explanatory, and hardly need further expounding.

The application of statistics to probable future events and happenings is illustrated in the activities of the Meteorological Department (referred to variously as the Hydrographical Department and the Weather Office). Statistics relating to rainfall, sunshine, wind-pressures, barometric variations, and other details are collected from all over the country, and from other countries and stations where the weather may affect our climate. Probably most students are aware in a general way how gales of wind are caused, and when to expect rain, and our experts can forecast the weather conditions for 24 hours ahead in any place in the country with surprising accuracy. And there is another business which deals in statistics. Life Assurance Offices, Burglary, Fire and Accident Insurance Offices, Cotton Brokers, and Spinners, all have an interest in "futures." So we cease to wonder why the Institute and the Society have included the subject in their syllabus in recent years, for it simply obtrudes itself into every phase of life. Even our Pocket Diary is a statistical hand-book!

Having now dealt with the uses, we turn to the abuses of statistics. The commonest kind of abuse is that of "Graphical Misrepresentation." Other abuses have been referred to briefly beforehand, such as unfair selection and the inclusion of items not suitable for the argument.

Probably students have seen a certain advertisement showing two containers, the smaller being the amount of the preparation to be consumed, and the larger representing the amount of somebody-else's preparation to be consumed to obtain a corre-

“Statistics—Their Uses and Abuses.”

sponding benefit. This method of “representation” has been extended to showing comparison (!) between the consumption of beer in various countries; between the various navies and armies and war-chests of belligerent powers (I have in mind a certain war-map issued in 1914 by a well-known daily paper); between the numbers of passengers carried in any two years upon railways, tramways, steamships, &c., and so on. The fundamental error made in this connection is that whereas the data given are to be compared in height only, the eye of the reader takes in the variation of *area*, and so the ordinary individual obtains an exaggerated impression of growth. I would like to refer to an American publication which has been available over here for some three years. It is published under the auspices of the “Works Management Library” by the New York Engineering Magazine Company. Its title is “Graphic Methods for Presenting Facts,” its author Willard C. Brinton. The whole burden of the book is that the method of presentation is as important as the data. And as I am unable to improve on this last statement, I commend its significance to all students.

Queries and Replies.

(Correspondents who wish to make use of this column are requested to write their queries on one side of the paper only and to be as brief as possible. There is no need to enclose a covering letter if the communication is headed “Accountants’ Journal, Queries and Replies column,” and signed at the end with the name and address of the sender, which will not be published if the query is signed with a nom de plume.)

Cheque Receipt Forms.

Cheque with form of receipt, the signature of which is a condition precedent to payment. The above, being conditional, I understand is not at law a B/E or cheque. (Bavins v. London & South Western Bank.) Is it, however, to be understood:—(a) That it is a negotiable instrument, and, in the absence of any direction to pay “a/c payee only,” capable of being freely negotiated and transferred by the payee? (b) That not being a B/E or cheque, a banker is unable to claim protection under Section 6 of The Bills of Exchange Act, 1882?—POST-SCRIPT.

If a cheque requires a particular form of receipt to be given as a condition to the payment it is not a cheque, but so long as the instructions as to receipt are not addressed to the bankers it will be held to be still a negotiable instrument. We think the answers to both your queries (a) and (b) therefore depend entirely upon the question as to whom the instructions are actually addressed.

Re Partnership Agreement.

I have referred to several books on Mercantile Law and kindred subjects, but cannot trace any information regarding stamping of the partnership agreement. The interesting article by Neville Hobson, solicitor, does not mention stamp duties, although, as the document is a deed, it must be stamped. Will you kindly supply information with regard to the proper stamp duties payable. In the absence of a proper agreement, would statements contained in a memorandum, signed by the partners, say, with reference to the term of the partnership, or other matters which may create differences in comparison with the Partnership Act, 1890, be binding on the partners.—PARTNERSHIP.

Unless the partnership agreement is under seal, an ordinary 6d. agreement stamp is sufficient. If, however, it is executed as a deed, then a 10s. stamp is necessary. The terms of the partnership may always be varied, either by express or implied agreement, and, therefore, the memorandum to which you refer would form sufficient evidence of their intentions to vary the terms of their agreement.

Directors’ Remuneration.

I have before me a directors’ report containing the following:—The following resolution, proposed by —, seconded by —, and passed unanimously at the last general meeting, will be submitted for confirmation as a special resolution, viz.: That

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as from the 1st February 1920 the directors of the company, other than the managing director, shall be paid by way of remuneration for their services a sum of £700 per annum, being an increase of £250 over their present remuneration, and that a sum of £210 be paid to them by way of bonus for the year ended 31st January 1920. Please say if this is legal. I understood that the meeting to confirm a resolution as a special resolution should be held within not less than fourteen days, and not more than one month after the first meeting, but in this case the confirmation is to take place one year and twelve days after the first meeting.—CASEY.

The resolution necessary to sanction the directors' increased remuneration entirely depends upon the company's articles of association. Usually, the question of directors' remuneration is dealt with at the annual general meeting of the company. In the case you cite it would appear that the confirmatory resolution cannot be correctly designated as a "special" resolution, as it does not conform to the requirements of the Companies Consolidation Act, which, as you say, must be passed as confirming an extraordinary resolution at a meeting held not less than 14 days and not more than one month afterwards.

Apportionment.

The trustees under a Trust Deed, on certain properties becoming void, spent a considerable amount of money on general repairs and decorations, which were almost necessary before letting again, with a view to increasing the capital value, and so justifying a sale which is now taking place. It has been contended that Capital should be charged with a proportion of these decorations, but it appears to me that the whole should be charged to Income, income having benefited during previous years.—E. W. P.

The usual rule is that all minor repairs are chargeable to income, but any structural repairs or alterations which would result in additional rental value should be charged as capital.

Payment of Dividends.

What is the usual procedure with regard to dividends payable in the first twelve months of a public company's trading, where it has not been advertised but mentioned to friends, who have been invited to become shareholders and have paid up immediately on invitation, but the payments have been at various dates during the first six months of the company's trading? Are they all entitled to receive dividends for the full twelve months or from the date they paid up their shares?—SUBSCRIBER.

The question of the payment of dividends is one which rests entirely with the directors, unless, of course, you are referring to any shares to which the articles or memorandum of association may give special rights as to dividends. If it is a public company, the prospectus sometimes provides for proportions of dividends to be paid from the dates the shares were fully paid up.

Rating.

An electric supply undertaking, of which I am Secretary, has recently been re-valued for rating purposes, and the rateable value as a consequence, considerably increased.

We have applied to the assessors for detailed particulars showing how the rateable value is arrived at as you are doubtless aware electric supply undertakings are assessed by a special method, but same are not forthcoming. Are they not bound to reveal their figures showing how the assessment is arrived at?

Do you know of a simple and cheap handbook setting forth the provisions of the present Acts? There is, I understand, a likelihood of a new Act in the near future, so one does not naturally wish to go to much expense.—L. W.

(a) *Rating.*—The question of challenging the rateable value arrived at by the assessors is rather a difficult and delicate matter. In actual practice it usually involves a sort of round table conference at which both parties bring forward their figures and endeavour to prove their case. It is very desirable that any challenge should be placed in the hands of an expert on rating, the ordinary local surveyor not having, as a rule, sufficient experience and technical knowledge of the subject. The best experts in London are either Mr. Ryde, of the Guildhall, or Michael Farraday.

(b) *Workmen's Compensation Act.*—The best book on this subject is by Addington Willis, LL.B., published by Messrs. Butterworth.

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WITH WHICH IS INCORPORATED

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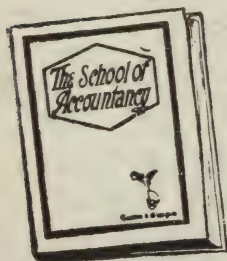
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SUBJECTS FOR PRELIMINARY EXAMINATION, 7th, 8th, and 9th June 1921

Hours of Examination.

1st day, 10.30 to 1.—Arithmetic. 2 to 3.30.—Geography. 4 to 5.30.—Dictation and Composition.	2nd day, 10.30 to 1.—Algebra and Geometry. 2 to 3.30.—History. 4 to 5.30.—Optional Subjects.	3rd day, 11 to 12.30. 2 to 3.30. 4 to 5.30.	Optional Subjects.
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COMPULSORY SUBJECTS.

- 1.—DICTATION AND SHORT ENGLISH COMPOSITION.
- 2.—ARITHMETIC. Approximate evaluation by contracted methods, *i.e.* Calculation of results only to the degree of accuracy required or justified by the data. Commercial Problems.
- 3.—ALGEBRA AND GEOMETRY.
ALGEBRA to the solution of quadratics, including indices. The use of graphs for simple algebraic functions and for solving equations and practical problems. Numerical results to a few significant figures. (Grasp of simple principles will be looked for, and readiness in practical application, but not skill in difficult analysis.)
GEOMETRY. The substance of Euclid I.-IV., together with problems involving practical geometrical drawing (to scale). The use of scale, protractor, vernier, compasses, set squares, and of squared paper.
- 4.—GEOGRAPHY. Great Britain and Ireland, and Norway, Sweden, Denmark and Holland and their dependencies, including questions on both physical and commercial geography.
- 5.—HISTORY. Outlines of the history of England from the year B.C. 55 to date.

OPTIONAL SUBJECTS.

Candidates must enter for two (and two only) of the following subjects, one of which must be a language.

- 1.—LATIN
 - 2.—GREEK
 - 3.—FRENCH
 - 4.—GERMAN
 - 5.—ITALIAN
 - 6.—SPANISH
- The examination will consist of translation of passages from these languages into English, and from English into these languages, and questions in Grammar. A candidate will not be permitted to pass unless he does satisfactorily in Grammar and Composition as well as in translation.

7.—ADVANCED MATHEMATICS.

ALGEBRA. More advanced questions on the subject of the compulsory paper, including compound interest; also the elementary use of undetermined co-efficients. The simple elementary infinite series $(1-x)^n$, e^x , $\log. (1-x)$, $\sin. x$, $\cos. x$, and their use in approximate calculations and in finding the "slope" at a given point of a graph. Elementary algebraic geometry of line and circle.

GEOMETRY. The substance of Euclid V. (treated algebraically) and VI.

TRIGONOMETRY up to and including the solution of plane triangles, and the use of tables and of graphs. (Acquaintance with the use of the sextant and theodolite is desirable.)

- 8.—PHYSICS.
 - 9.—CHEMISTRY.
 - 10.—BIOLOGY.
 - 11.—GEOLOGY.
 - 12.—STENOGRAPHY.
- A syllabus of each of these Sciences can be obtained at the Offices of the Institute. The subjects referred to are those of importance in ordinary life. To make their study and the knowledge of value, the subjects mentioned should be studied as far as possible practically and thoroughly, although in an elementary manner. This examination will consist of dictation during eight minutes at the rate of seventy words a minute, and transcription by the Candidates of their notes. The Candidates' original notes and transcripts must both be given up to the Examiner. Any recognised system is accepted.

SUBJECTS for { INTERMEDIATE EXAMINATION, 24th and 25th May 1921.
FINAL EXAMINATION, 31st May, and 1st and 2nd June 1921.

Subjects for Intermediate Examination	1. Bookkeeping and Accounts (including Partnership Accounts). 2. Bookkeeping and Accounts (including Executorship Accounts). 3. Auditing. 4. The Rights and Duties of Liquidators, Trustees, and Receivers. 5. The Principles of the Law of Bankruptcy and of the Law relating to Joint Stock Companies. 6. The Principles of Mercantile Law and of the Law of Arbitrations and Awards.	Subjects for Final Examination.
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The Council do not recommend the use of any particular books in preparing for the Examinations.

FEES.—Payable on admission to the Institute and afterwards.

	Country.	London.
	£ s d	£ s d
On Admission as an Associate	10 10 0	
On Election to Fellowship	10 10 0	
Annual Subscription of Associates not in Practice	1 1 0	
Annual Certificate Fees of Associates in Practice	1 1 0	2 2 0
Annual Certificate Fees of Fellows in Practice	3 3 0	5 5 0

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